FINAL OFFERING CIRCULAR 22 February 2008

RIZAL COMMERCIAL BANKING CORPORATION

(a banking corporation organized and existing under Philippine laws)

₱7,000,000,000 UNSECURED SUBORDINATED NOTES ELIGIBLE AS LOWER TIER 2 CAPITAL DUE 2018 CALLABLE WITH STEP-UP IN 2013 OFFER PRICE 100.0% OF FACE VALUE

Rizal Commercial Banking Corporation (the "Bank") is offering in one or more tranches ₱7,000,000,000 worth of Unsecured Subordinated Notes Eligible as Lower Tier 2 Capital due 2018, callable with step-up in 2013 (the "Notes") pursuant to the authority granted by the Bangko Sentral ng Pilipinas ("BSP") to the Bank on 30 January 2008 and BSP Circular No. 280 Series of 2001, as amended from time to time. The Notes will bear interest at the rate of 7.0% per annum from and including 22 February 2008 to but excluding 22 February 2013 and interest will be payable quarterly in arrears at the end of each Interest Period on 22 May, 22 August, 22 November, and 22 February. Unless the Notes are redeemed, on Optional Redemption Date the applicable interest rate from and including 22 February 2013 to but excluding 22 February 2018 (the "Maturity Date") will be increased to the rate equal to 3.53304% per annum above 80.0% of the 5-year Fixed Rate Treasury Note benchmark bid yield (the "Step-Up Interest Rate"), and such Step-Up Interest Rate shall be payable quarterly in arrears at the end of each Interest Period on 22 May, 22 August, 22 November and 22 February except for the last Interest Period which will end on the Maturity Date.

Unless previously redeemed, the Notes will be redeemed at their principal amount on the Maturity Date or 22 February 2018. Subject to the satisfaction of certain regulatory approval requirements, the Bank may redeem the Notes in whole and not only in part on the Optional Redemption Date at the face value of the Notes, plus accrued and unpaid interest as of but excluding the Optional Redemption Date. The Notes will constitute direct, unconditional, unsecured and subordinated obligations of the Bank, and will, at all times, 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 Notes—Status and Subordination. The Notes cannot be terminated by any holder of the Notes (the "Noteholder") before the Maturity Date. However, transfers or assignments to Prospective Noteholders who are not Prohibited Noteholders shall not be considered pre-terminations.

The Notes will be issued in scripless form in denominations of ₱500,000.00 and integral multiples of ₱100,000.00 thereafter and will be registered and lodged with the Registrar and Paying Agent in the name of the Noteholders. The Notes will be represented by a Master Note deposited with the Public Trustee (with copy to the Registrar). The electronic registry book (the "Registry") maintained by the Registrar and Paying Agent shall serve as the best evidence of ownership with respect to the Notes. However, a written advice will be issued by the Registrar to the Noteholders to confirm the registration of Notes in their name in the Registry, including the amount and summary terms and conditions of such Notes in accordance with the regulations of the BSP ("Registry Confirmations"). Once registered and lodged, the Notes will be eligible for transfer or assignment through the Market Maker by electronic book-entry transfers in the Registry, cancellation of the Registry Confirmations of transferor Noteholders and issuance of Registry Confirmations in favor of transferee Noteholders. See Terms and Conditions of the Notes—Secondary Trading.

The Bank has a Senior Unsecured Debt Rating of BB- from Fitch Ratings ("Fitch") and a Bank Financial Strength Rating of E+ and a Senior Unsecured Debt Rating of Ba3 from Moody's Investor Services). The Notes are rated B+ by Fitch. Such a rating would relate to the timely payment of interest on the Notes and the full payment of the principal amount of the Notes on or before 22 February 2018. 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 rating agency concerned.

INVESTING IN THE NOTES INVOLVES CERTAIN RISKS. SEE "RISK FACTORS" FOR A DISCUSSION OF FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES.

JOINT LEAD ARRANGERS, SELLING AGENTS and MARKET MAKERS

HSBC The world's local bank

ING WHOLESALE BANKING

If you are in any doubt about this Offering Circular, you should consult representatives of the Selling Agents such as a sales professional or bank manager, or a professional accountant or other professional adviser.

RIZAL COMMERCIAL BANKING CORPORATION
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MAKATI CITY, PHILIPPINES
TELEPHONE NUMBER: +63 2 894 9000
THE DATE OF THIS OFFERING CIRCULAR IS 22 FEBRUARY 2008.

Important Notice

Unless the context indicates otherwise, any reference to "the Bank" or to "RCBC" refers to Rizal Commercial Banking Corporation. The information contained in this Offering Circular relating to the Bank, its operations and those of its subsidiaries and affiliates has been supplied by the Bank, unless otherwise stated herein.

This Offering Circular has been prepared solely for the information of persons to whom it is transmitted by The Hongkong and Shanghai Banking Corporation ("HSBC") and ING Bank, N.V. (Manila Branch) ("ING"), as Joint Lead Arrangers and Selling Agents, or the Bank, in its capacity as Limited Selling Agent, with respect to the Notes to be issued by the Bank. This Offering Circular shall not be reproduced in any form, in whole or in part, for any purpose whatsoever nor shall it be transmitted to any other person.

To the best of its knowledge and belief, the Bank (which has taken all reasonable care to ensure that such is the case) confirms that the information contained in this Offering Circular relating to the Bank, its operations and those of its subsidiaries and affiliates (collectively, the "Group") and the Notes which is material in the context of the issue and offering of the Notes, is correct, and that there is no material statement or omission of fact which would make any statement in this Offering Circular misleading in any material respect and that the Bank hereby accepts full and sole responsibility for the accuracy of the information contained in this Offering Circular with respect to the same. The Joint Lead Arrangers and Selling Agents assume no liability for any information supplied by the Bank in relation to this Offering Circular.

In making an investment decision, the prospective Noteholder must rely on its own examination of the Bank and the terms of the offering of the Notes, including the merits and risks involved. By receiving this Offering Circular, the prospective Noteholder acknowledges that (i) it has not relied on the Joint Lead Arrangers or any of the Selling Agents or any person affiliated with them in connection with its investigation of the accuracy of any information in this Offering Circular or its 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 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, the Joint Lead Arrangers or Selling Agents.

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

This Offering Circular does not constitute an offer to sell, or an invitation by or on behalf of the Bank, the Joint Lead Arrangers or Selling Agents or any of their respective affiliates or representatives to purchase any of the Notes, and may not be used for the purpose of an offer to, or a solicitation by, anyone, in each case, in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized or is unlawful. Recipients of this Offering Circular are required to inform themselves about and observe any applicable restrictions.

Each Noteholder must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Notes or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Notes under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales and the Bank, Joint Lead Arrangers or Selling Agents shall have no responsibility therefor.

The Bank's audited consolidated financial statements as of and for the years ended 31 December 2004, 2005 and 2006, as well as the unaudited consolidated financial statements as of and for the periods ended 30 September 2006 and 2007, included in this Offering Circular, have been prepared in accordance with generally accepted accounting principles in the Philippines as set forth in Philippine Financial Reporting Standards ("PFRS") and Philippine Accounting Standards ("PAS"). The Bank's consolidated financial statements as of and for the year ended 31 December 2004 have been restated for the adoption of PFRS / PAS other than with respect to PAS 32, 'Financial Instruments: Disclosure and Presentation' and PAS 39, 'Financial Instruments: Recognition and Measurement'. The Bank's consolidated financial statements as of and for the year ended 31 December 2004, prior to restatements, were audited by SyCip, Gorres, Velayo & Co. ("SGV") and the Bank's consolidated financial statements as of and for the years ended 31 December 2005 and 2006 were audited by Punongbayan & Araullo ("P&A"). The Bank's unaudited consolidated financial statements as of and for the periods ended 30 September 2006 and 2007 were also reviewed by P&A. P&A's audit and review reports include qualifications with respect to the staggered recognition of the additional allowance for impairment and losses and the derecognition of certain NPLs transferred and credit card receivables sold by a subsidiary of one of the Bank's subsidiaries.

Conventions

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. Unless otherwise specified or the context otherwise requires, references herein to "U.S. dollars" and "U.S.$" are to the lawful currency of the United States of America and references herein to "Pesos" and "₱" are to the lawful currency of the Republic of the Philippines. Certain monetary amounts and currency translations included in this document have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures, which precede them. References in this document to ownership interests are, save as otherwise disclosed, as at the date of this document.

Forward-looking Statements

All statements contained in this Offering Circular that are not statements of historical fact constitute "forward-looking statements". Some of these statements can be identified by forward-looking terms, such as "anticipate", "believe", "can", "could", "estimate", "expect", "intend", "may", "plan", "will" and "would" or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding the Group's expected financial condition and results of operations, business, plans and prospects are forward-looking statements. These forward-looking statements include statements as to the Group's business strategy, revenue and profitability, planned projects and other matters discussed in this Offering Circular regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Offering Circular (whether made by the Bank or any third party) involve known and unknown risks, uncertainties and other factors that may cause the Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

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SUMMARY OF THE OFFERING

This summary highlights information contained elsewhere in this Offering Circular. This summary is qualified in its entirety by more detailed information and financial statements, including notes thereto, appearing elsewhere in this Offering Circular. For a discussion of certain matters that should be considered in evaluating an investment in the Notes issue, see "Risk Factors". Investors are advised to read this entire Offering Circular carefully, including the Bank's consolidated financial statements and related notes contained herein.

Overview

The Bank is a universal bank in the Philippines that provides a wide range of banking and other financial products and services, including commercial and retail banking, credit cards, asset management and treasury and investment banking products and services. As of 31 December 2007, the Bank was the fourth largest capitalized private universal bank in the Philippines. In terms of branches, the Bank, excluding Government-owned and foreign banks, ranked sixth in the Philippines, with a country-wide total of 301 branches as of 31 December 2007.

The Bank, incorporated under the name Rizal Development Bank, began operations as a private development bank in the province of Rizal in 1960. In 1963, the Bank received approval from the Bangko Sentral ng Pilipinas ("BSP") to operate as a commercial bank and thus began operations under its present name. In 1973, the Bank formed alliances with two foreign banks, Continental Illinois National Bank ("Continental Illinois") and United Financial of Japan ("UFJ"), then known as Sanwa Bank. The relationship with Continental Illinois ended in 1985 after it sold its shareholding in the Bank to UFJ. In December 2006, UFJ (which, after its merger in 2004 with Mitsubishi Tokyo Financial Group, became known as The Bank of Tokyo-Mitsubishi UFJ Limited) disposed of its entire shareholdings in the Bank, with the majority being sold to Spinnaker Global Strategic Fund Ltd. and Spinnaker Global Emerging Markets Fund Ltd. (together, "Spinnaker"). As of 31 December 2007, the Yuchengco group, primarily through a holding company, the Pan Malayan Management and Investment Corporation ("Pan Malayan") owned approximately 42.0% of the Bank's outstanding shares. In addition, as of such date, others members of YGC owned or controlled an additional 10.8% of the Bank's issued and outstanding common shares and Spinnaker owned 13.2% of the Bank's outstanding common shares.

As of 30 September 2007, the Bank's consolidated total assets and capital funds before minority interests amounted to ₱225.4 billion and ₱28.4 billion, respectively. The Bank's net income attributable to parent company shareholders for the nine-month period ending 30 September 2007 amounted to ₱2.5 billion. As of 31 December 2007, the Bank had a market capitalization on the Philippine Stock Exchange ("PSE") of ₱23.1 billion. The Bank's Tier 1 capital adequacy ratio and total capital adequacy ratio were 14.9% and 18.8%, respectively, as of 30 September 2007.

The Bank offers commercial, corporate and consumer banking products and services throughout the Philippines, as well as treasury, cash management and remittance services. Reflecting the Bank's medium-term strategy, which is to grow its loan portfolio, corporate businesses currently account for a significant portion of the Bank's income. For the nine-month period ended 30 September 2007, the Bank's Corporate Banking Group ("CBG") was the largest contributor to its net income.

The Bank's corporate banking practice focuses particularly on international corporate clients in special economic zones, Japanese and Filipino-Chinese businesses and leading Philippine and multinational corporations. Through its current affiliation with YGC and past affiliation with UFJ, it has established long-standing relationships with Japanese companies in special economic zones within the Philippines, as well as Chinese and international companies.

The Bank's Retail Banking Group ("RBG") provides a range of banking products and services mainly sold through the Bank's branch network. These include deposit products, cash management solutions, investments including trust products, and bancassurance. Aside from managing the Bank's branches, RBG also manages the Bank's nationwide ATM network.

The Bank also provides a full range of consumer banking products and services in the Philippines, primarily through its subsidiary, RCBC Savings Bank, Inc. ("RSB").

The Bank's international operations consist of its wholly-owned subsidiaries, RCBC North America, Inc. (formerly RCBC California International Inc.) ("RCBC North America") and RCBC TeleMoney Europe SpA ("RCBC Telemoney Europe") in the United States and Italy, respectively, and its majority-owned subsidiaries RCBC International Finance Ltd. ("RCBC IFL") and RCBC Investments, Ltd. ("RCBC Investments") in Hong Kong. The Bank's relationship with other banks, exchanges and other international money transfer agencies has strengthened its remittance business used primarily by overseas Filipino workers ("OFWs"). The Bank estimates it had an approximate 9.20% share of the remittance business in the Philippines as of 31 December 2006, and 9.16% as of 30 September 2007, based on remittance volumes published by the BSP.

Over the past five years, the Bank has invested heavily in its information technology ("IT") infrastructure. In particular, the Bank's introduction of Integrated Delivery Channels ("IDCs") has allowed the Bank to develop its branches into integrated business centers or sales outlets with electronic-based delivery channels. The Bank's investments in technology and automation have complemented the ongoing realignment of the organization, which allows the Bank to reallocate key personnel to the most strategic areas of the business.

Competitive Strengths

The Bank considers the following to be its principal competitive strengths:

- Sustainable size in a consolidating market, with an established operating history;
- Leading positions in key products;
- Strong group synergies and support;
- Proven and experienced management team; and
- Extensive and strategically located banking infrastructure and branch network.

Business Strategies

The Bank intends to pursue a number of core business strategies, as follows:

- Increase profitability from existing businesses while building a diversified franchise;
- Further expand the Bank's existing branch network while enhancing the effectiveness of the distribution network through the introduction of more electronic channels;
- Expand focus on providing services to non-resident Filipinos;
- Accelerate disposition of non-performing assets ("NPAs"); and
- Where suitable opportunities arise, pursue a prudent acquisition strategy.

Risks of Investing

Before making an investment decision, investors should carefully consider the risks associated in purchasing the Notes. These risks include:

- Risks relating to the Bank, and its business;
- Risks related to the Philippine banking industry;
- Risks related to the Philippines; and
- Risks relating to the Notes.

See "Risk Factors", which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of the Notes.

The Offer

HSBC and ING, in their individual capacities as Joint Lead Arrangers have agreed with the Bank, subject to the satisfaction of certain conditions, to distribute and sell the Notes at the Issue Price in consideration for certain fees and expenses. The Joint Lead Arrangers will offer the Notes to selected prospective holders of the Notes ("Noteholders").

The distribution and sale of the Notes to prospective Noteholders shall be undertaken by the Joint Lead Arrangers and the Selling Agents for the Issue. Nothing herein shall limit the right of each of the Joint Lead Arrangers to purchase the Notes for its own account. The Joint Lead Arrangers may, from time to time, engage in transactions with and perform services for the Bank or its shareholders or affiliates in the ordinary course of its business.

The following is a general summary of the terms of the Notes. This summary is derived from and should be read in conjunction with the full text of the Terms and Conditions of the Notes (the "Terms and Conditions").

ISSUER	Rizal Commercial Banking Corporation (the "Bank")
NOTES OFFERED	₱7,000,000,000 Fixed Rate Unsecured Subordinated Notes
DENOMINATION	A minimum investment of ₱500,000.00 and in increments of ₱100,000.00 thereafter.
ISSUE PRICE	100% of the nominal principal amount
INTEREST RATE	Fixed rate of 7.0% p.a., payable to each Noteholder for the period from and including the Issue Date up to, but excluding, the Optional Redemption Date (whether the Redemption Option is exercised or not).
STEP-UP INTEREST RATE	(80% x 5-year on-the-run Philippine Treasury benchmark bid yield as of the first day of the 21st Interest Period) plus the Step-Up Spread, payable to the Noteholders in lieu of the Interest Rate beginning on the 21st Interest Period up to the last Interest Period in the event that the Bank does not exercise the Redemption Option. The Step-Up Spread is equal to 150% x [Interest Rate—(80% of the Initial Benchmark)], which is equivalent to 3,53304% per annum.
OFFER PERIOD	The period when the Notes are offered for sale by the Issuer through the Selling Agents to prospective Noteholders, commencing on the start of business hours on 4 February 2008 and ending close of business hours on 15 February 2008 or such other dates as may be determined by the Issuer and the Joint Lead Arrangers.
ISSUE DATE	22 February 2008.
MATURITY DATE	The last day of the 40th Interest Period from Issue Date, which is on 22 February 2018.
OPTIONAL REDEMPTION DATE . . .	The day when the optional redemption is exercised by the Bank which day shall be the first Banking Day of the 21st Interest Period.
FORM	The Notes will be 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 Republic 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 Notes in electronic form. A Registry Confirmation, however, will be issued by the Registrar in favor of the Noteholders in accordance with the Governing Regulation.
INTEREST ACCRUAL	The Notes will bear interest on its principal from and including the Issue Date to but excluding the Optional Redemption Date at the stipulated Interest Rate. In the event the Notes are not redeemed on the Optional Redemption Date, the Notes will bear interest on its principal from and including the Optional Redemption Date to but excluding the Maturity Date, at the stipulated Step-Up Interest Rate. In such an event, interest at the Step-Up Interest Rate will be payable to the Noteholders in lieu of the Interest Rate beginning the 21st Interest Period up to the last Interest Period.

Interest in respect of the Notes will be calculated by the Paying Agent on a 30/360-day count basis and will be paid in arrear quarterly on the last day of each successive Interest Period (each an "Interest Payment Date"). If the Interest Payment Date is not a Banking Day, interest will be paid on the immediately succeeding Banking Day, without adjustment to the amount of interest to be paid. Provided further, that if such succeeding Banking Day falls into the next calendar month, the Interest Payment Date shall be the immediately preceding Banking Day, in either case, without adjustment to the amount of interest to be paid. Provided further, that if such succeeding Banking Day falls into the next calendar month, the Interest Payment Date shall be the immediately preceding Banking Day, in either case, without adjustment to the amount of interest to be paid.

INTEREST PERIODS . . . . The period commencing on the Issue Date and having a duration of three (3) months and, thereafter, each successive three (3)- month period commencing on the last day of the immediately preceding Interest Period up to, but excluding the first day of the immediately succeeding Interest Period, but in the case of the last Interest Period, it will be the period from and including the last day of the immediately preceding Interest Period up to, but excluding, the Maturity Date.

PRINCIPAL REPAYMENT . . . . Any payment of principal or interest under the Notes shall be made through the Paying Agent based solely on the records of the Registrar.

REDEMPTION OPTION . . . . On the Optional Redemption Date, upon (x) prior approval of the BSP, subject to the following conditions: (i) the capital adequacy ratio of the Bank 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 (unless the Bank's capital ratio remains more than adequate after redemption); and (y) a 30-day prior written notice to Noteholders on record; all and not less than all of the Notes may be redeemed at the instance of the Bank at the Issue Price plus accrued and unpaid interest.

If at any time before the Optional Redemption Date there occurs (a) a change in tax status of the Notes due to changes in tax statutes and/or regulations, or (b) a determination by the BSP that the Notes do not qualify as Lower Tier 2 capital of the Bank, the Bank may, upon prior approval of the BSP and at least a 30-day prior written notice to the Noteholders, redeem all and not less than all of the Notes at the Issue Price plus accrued and unpaid interest.

NON-PRETERMINABILITY . . . . The Notes shall not be redeemable or terminable at the instance of any Noteholder before Maturity Date.

SECONDARY TRADING . . . . All secondary trading of the Notes shall be coursed through the 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 in connection with trading on PDEx, or to the Registrar, if applicable. Any transfer between a taxable and non-taxable person shall only be effective on an Interest Payment Date.

STATUS AND SUBORDINATION . . . The Notes will constitute direct, unconditional, unsecured, and subordinated obligations of the Bank. Claims of all the Noteholders in respect of the 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 Bank, 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 Bank.

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

THE NOTES, LIKE OTHER SUBORDINATED INDEBTEDNESS OF THE BANK, ARE SUBORDINATED TO THE CLAIMS OF DEPOSITORS AND ORDINARY CREDITORS, ARE NOT DEPOSITS, 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, 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 Notes shall not be used as collateral for any loan made by the Bank or any of its subsidiaries or affiliates.

TAXATION . . . . If any payments of principal and/or interest under the 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 Bank shall be required by law or regulation to deduct or withhold such Taxes, then the Bank shall make the necessary withholding or deduction for the account of the Noteholder concerned; provided, however, that all sums payable by the Bank 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 Notes and the documentation, if any, shall be for the Bank's account.

In the event that (a) due to a change in tax status of the Notes because of changes in tax statutes (and not merely a change in the interpretation of present Tax statutes and regulations), any payments of principal and/or interest under the 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 Bank does not redeem the Notes prior to stated maturity pursuant to this Master Note and the Governing Regulation, then all payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any such New Taxes, unless such withholding or deduction is required by law. In that event, the Bank 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.
GOVERNING LAW	Laws of the Republic of the Philippines
GOVERNING REGULATIONS	BSP Memorandum to All Banks and Non-Bank Financial Institutions dated 17 February 2003 and Circular No. 280 (2001) 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.
RISK FACTORS	See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Notes.
JOINT LEAD ARRANGERS	The Hongkong and Shanghai Banking Corporation Limited ("HSBC") and ING Bank, N.V. (Manila Branch) ("ING")
SELLING AGENTS	HSBC, ING, Multinational Investment Bancorporation ("MIB"), and to the extent allowed under the Governing Regulation, the Bank as Limited Selling Agent
REGISTRAR AND PAYING AGENT	Philippine Depository & Trust Corp.
MARKET MAKER	Initially, HSBC, ING and MIB, and may refer, when the circumstances warrant, to the PDEx.
PUBLIC TRUSTEE	HSBC

Use of Proceeds

The Notes will allow the Bank to raise additional Lower Tier 2 supplementary capital, redeem its existing Peso-denominated Lower Tier 2 capital and to further increase and strengthen its capital base.

SUMMARY FINANCIAL INFORMATION

The following tables present summary consolidated financial information for the Bank and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Offering Circular and the sections entitled "Assets and Liabilities" and "Business" in this Offering Circular. The summary financial information presented below as of and for the years ended 31 December 2004, 2005 and 2006 were derived from the audited consolidated financial statements of the Bank and the financial information presented below as of and for the nine months ended 30 September 2006 and 2007 were derived from the Bank's unaudited consolidated interim financial statements. The Bank's audited consolidated financial statements as of and for the years ended 31 December 2004, 2005 and 2006 and unaudited consolidated interim financial statements as of and for the nine months ended 30 September 2006 and 2007 included in this Offering Circular have been prepared in accordance with PFRS/PAS. The consolidated financial statements as of and for the year ended 31 December 2004 have been restated for the adoption of PFRS/PAS other than with respect to PAS 32, 'Financial Instruments: Disclosure and Presentation' and PAS 39, 'Financial Instruments: Recognition and Measurement'. Thus, the fiscal 2004, 2005, and 2006 financial statements are not directly comparable. The Bank's consolidated financial statements as of and for the year ended 31 December 2004, prior to restatements, were audited by SGV, the Bank's consolidated financial statements as of and for the year ended 31 December 2005 and 2006 were audited by P&A. P&A's audit report for the year ended 31December 2005 and 2006 includes qualifications with respect to the staggered recognition of the additional allowance for impairment and losses and the derecognition of certain non-performing loans ("NPLs") transferred and credit card receivables sold by a subsidiary of one of the Bank's subsidiaries. The interim financial statements included in this Offering Circular have not been audited. The summary financial information set out below does not purport to project the results of operations or financial condition of the Bank for any future period or date.

	For the years ended 31 December			For the nine months ended 30 September	
	2004	**2005**	**2006**	**2006**	**2007**
	(₱ millions except per share data)				
SELECTED CONSOLIDATED STATEMENTS OF INCOME DATA					
Interest income	11,813.1	14,722.9	15,327.9	11,088.4	11,457.7
Interest expense	6,613.6	7,556.5	8,069.5	5,345.8	4,904.2
Net interest income	5,199.5	7,166.4	7,258.4	5,742.6	6,553.5
Impairment losses	2,213.0	1,566.7	1,749.4	1,439.0	1,225.5
Net interest income after impairment losses	2,986.6	5,599.7	5,509.1	4,303.6	5,328.0
Other operating income	4,638.7	4,056.3	5,054.0	2,411.7	3,531.0
Other operating expenses	6,516.9	7,698.4	8,046.8	5,353.5	5,835.7
Income before income tax	1,108.4	1,957.7	2,516.3	1,361.8	3,023.3
Tax expense	20.6	955.6	626.9	359.2	484.1
NET INCOME AFTER TAX	**1,087.8**	**1,002.1**	**1,889.4**	**1,002.6**	**2,539.2**
Net loss attributable to minority interest	158.1	256.9	163.3	156.2	(17.1)
Net income attributable to parent company's shareholders	1,245.9	1,259.0	2,052.6	1,158.8	2,522.1

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006	2006	2007
	(₱ millions)				
SELECTED CONSOLIDATED STATEMENTS OF CONDITION DATA					
Selected resources:					
Cash and other cash items	5,151.8	5,389.1	5,596.9	3,587.0	3,964.3
Financial assets at fair value through profit or loss	7,324.8	7,348.5	11,089.3	11,716.9	13,817.7
Held-to-maturity investments	22,324.9	24,323.2	—	—	—
Available-for-sale securities	3,087.6	10,852.9	47,816.7	43,272.1	45,581.7
Total investment securities	32,737.3	42,524.5	58,906.0	54,989.0	59,399.4
Loans and receivables—net	107,754.0	100,251.8	108,933.4	102,260.9	112,048.5
Investment property—net	11,820.8	11,533.1	9,984.9	11,639.6	8,067.0
TOTAL RESOURCES	**181,636.1**	**184,221.3**	**223,733.0**	**205,902.3**	**225,437.0**
Selected liabilities and capital funds:					
Total deposit liabilities	137,258.6	133,280.2	157,550.2	149,966.0	157,911.4
Bills payable	16,929.9	14,855.3	17,634.0	15,147.1	16,831.5
Subordinated debt	5,000.0	5,472.1	5,427.7	5,403.6	5,220.3
Total liabilities	169,735.9	171,511.5	200,342.2	190,593.6	197,317.6
Total capital funds	11,900.2	12,709.8	23,390.8	15,308.6	28,119.5
TOTAL LIABILITIES AND CAPITALFUNDS	**181,636.1**	**184,221.3**	**223,733.0**	**205,902.3**	**225,437.0**

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006	2006	2007
	(In percentages)				
SELECTED FINANCIAL RATIOS					
Return on assets(1)	0.7	0.7	1.0	0.6	1.1
Return on capital funds(2)	10.9	10.8	12.6	8.1	9.5
Net interest margin(3)	3.9	4.9	4.8	3.8	3.8
Cost-to-income ratio(4)	66.2	68.6	65.4	65.7	57.9
Loans-to-deposits(5)	69.4	59.9	53.7	55.9	61.0
Tier I capital adequacy ratio(6)	9.6	8.9	13.3	10.3	14.9
Total capital adequacy ratio(7)	15.8	13.7	20.3	15.5	18.8
Total tangible capital funds-to-total tangible assets(8)	5.2	5.8	9.6	6.5	11.7
Average tangible capital funds-to-average total tangible assets(9)	6.0	6.1	7.0	6.0	11.2
Total non-performing loans-to-total gross loans(10)	11.4	10.8	7.6	9.9	7.3
Non-accruing loans-to-total gross loan portfolio(11)	11.4	10.8	7.6	9.9	7.3
Allowances for impairment on loans-to-total gross loans(12)	8.3	10.0	5.5	8.7	5.6
Allowances for impairment on loans-to-total non-performing loans(13)	73.0	92.9	73.0	87.3	75.9
Allowances for impairment on loans and ROPA-to-total non-performing assets(14)	39.3	45.9	36.5	42.1	43.2
Specific provisions to non-performing loans(15)	17.1	10.6	14.6	15.9	14.4
Specific provisions to gross loans(16)	2.3	1.3	1.3	1.8	1.21

Notes:

(1) Net income divided by average total resources for the periods indicated.

(2) Net income divided by average total capital funds for the periods indicated.

(3) Net interest income divided by average interest-earning assets (including reserve and special deposit accounts with the BSP, interbank loans, trading and investment securities and loans) for the periods indicated.

(4) Other expenses divided by net interest and other income for the periods indicated.

(5) Total gross loans divided by total deposits for the periods indicated.

(6) Tier 1 capital divided by total risk-weighted assets for the periods indicated.

(7) Total regulatory capital divided by total risk-weighted assets for the periods indicated.

(8) Total tangible capital funds (capital funds minus goodwill and deferred tax assets) divided by total tangible assets (total assets minus goodwill and deferred tax assets) for the periods indicated.

(9) Average tangible capital funds divided by average total tangible assets for the periods indicated. Averages are based on quarterly averages.

(10) Total NPLs divided by total gross loans for the periods indicated.

(11) Non-accruing loans divided by total gross loan portfolio for the periods indicated. For a definition of *non-accruing loans*, see "Assets and Liabilities—Non-Performing Assets".

(12) Total allowance for impairment on loans divided by total gross loans for the periods indicated.

(13) Total allowance for impairment on loans divided by total NPLs for the periods indicated.

(14) Total allowance for impairment on loans and real or other property acquired (ROPA) divided by total NPAs (i.e. NPLs and ROPA) for the periods indicated.

(15) Specific provisions divided by total NPLs for the periods. Specific provisions were ₱2.2 billion, ₱1.0 billion and ₱1.1 for fiscal years 2004, 2005 and 2006 and ₱1.4 billion and ₱1.2 billion for the nine months ended 30 September 2006 and 2007, respectively.

(16) Specific provisions divided by total gross loans for the periods indicated.

RISK FACTORS

An investment in the Notes offering involves a number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance and there may be a large difference between the buying price and the selling price of these securities. Investors deal with a range of investments, each of which may carry a different level of risk. Investors should carefully consider all the information contained in this Offering Circular, including the risk factors described below, before deciding to invest in the Notes. The occurrence of any of the following events, or other events not currently anticipated, could have a material adverse effect on the Bank's business, financial condition and results of operations and cause the market price of the Notes to decline. All or part of an investment in the Notes could be lost.

This section entitled "Risk Factors" does not purport to disclose all of the risks and other significant aspects of investing in the Notes. Investors should undertake independent research and study the trading of securities before commencing any trading activity. Investors should seek professional advice regarding any aspect of the securities such as the nature of risks involved in the trading of securities, and specifically those of high risk securities. Investors may request publicly available information on the Bank from the Philippine Securities and Exchange Commission ("Philippine SEC"). The means by which the Bank plans to address the risk factors discussed herein are principally presented in the sections of this Offering Circular entitled "Business—Competitive Strengths", "Business—Business Strategies" and "Risk Management".

Risks Relating to the Bank

The reports of the Bank's independent auditors with respect to the consolidated statements of condition of the Bank as of 31 December 2004, 2005 and 2006 and the related consolidated income statements, statements of changes in capital funds and cash flows statements for the periods then ended were qualified

Prior to fiscal 2005, the Bank prepared its consolidated financial statements in accordance with generally accepted accounting principles in the Philippines applicable at such time and from fiscal 2005 the Bank has prepared its financial statements in accordance with PFRS/PAS other than with respect to the matters qualified in the relevant audit report. P&A, the Bank's independent auditors for fiscal 2005 and 2006, and SGV, the Bank's independent auditors for fiscal 2004, have identified certain matters relating to the preparation of the Bank's consolidated financial statements that were not consistent with the applicable accounting standards and have included qualifications to such effect in their published audit reports. The SGV audit report covering fiscal 2004 was dated 28 March 2005. The P&A audit report covering fiscal 2005 and 2006 was dated 19 February 2007 (except for Note 34 to the financial statements as to which the date was 23 February 2007 and Notes 9, 33 and 35 as to which the date was 15 March 2007). The Bank's unaudited consolidated financial statements as of and for the nine months ended 30 September 2006 and 2007 were also reviewed by P&A. The P&A report covering their review was dated 14 January 2008 and also included qualifications. The Bank's auditors issued audit and review reports included qualifications with respect to the staggered recognition of the additional allowance for impairment and losses, the derecognition of certain NPAs transferred and credit card receivables sold, and the recognition of deferred tax assets by one of the Bank's subsidiaries. The qualifications are described below:

- The Bank transferred certain of its NPAs to special purpose vehicles ("SPVs"), including transfers to Philippine Investment One, Inc. ("PIOI") and New Pacific Resources Management (SPV-AMC), Inc. ("NPRMI"). The transfers to PIOI and NPRMI were in consideration for, among other things, subordinated notes that contained provisions that payments under the notes are dependent on the SPV's ability to make collections on the transferred NPAs. The Bank's auditors have determined that such provisions do not reflect a complete transfer of risks and rewards as required by applicable accounting standards and that the transferred NPAs should be recognized in the Bank's financial statements, including any required additional allowance for impairment. Moreover, under Republic Act No. 9182 and the various resolutions and circulars published by the BSP regarding such Act (together, the "SPV Act"), the Bank is permitted to defer and amortize the required additional allowance for impairment on the NPAs transferred to PIOI and on the losses resulting from transfers of NPAs to other SPVs. Applicable accounting standards in the Philippines, however, require the full recognition of the required additional allowance for impairment and losses against current operations in the period that such impairment and losses were determined instead of capitalizing it as deferred charges and amortizing it over future periods. Had the Bank reflected its interest in PIOI in its financial statements and not derecognized the NPAs transferred to PIOI, and had the Bank fully recognized the required additional allowance for impairment and losses, the gross balance of the Bank's loans and receivables account would have increased by ₱3.8 billion, ₱5.2 billion and ₱5.2 billion as of 31 December 2004, 2005 and 2006, respectively, and ₱5.2 billion both as of 30 September 2006 and 2007; deferred charges (included as part of "Other Resources") would have decreased by ₱3.9 billion as of 31 December 2004, ₱6.6 billion as of 31 December 2005 and ₱9.1 billion as of 31 December 2006, and ₱6.4 billion as of 30 September 2006 and ₱8.7 billion as of 30 September 2007; and the Bank's net income would have decreased by ₱1.9 billion in fiscal 2004, ₱1.6 billion in fiscal 2005, ₱1.3 billion in fiscal 2006. Investment Property would have increased by ₱1.7 billion as of September 30, 2007 with respect to sale of NPAs to NPRMI while Available for Sale Securities would have decreased by the same amount.

- Bankard, Inc. ("Bankard"), an indirect subsidiary of the Bank, sold certain credit card receivables which it derecognized in its financial statements. Under applicable accounting standards in the Philippines, the credit card receivables sold by Bankard would not have qualified for derecognition. Had the credit card receivables sold not been derecognized, the Bank's consolidated net loans and receivables and trade and other payables accounts would have increased by ₱4.1 billion and ₱4.0 billion, as of 31 December 2004 and 2005, respectively, and ₱1.4 billion as of 30 September 2006. The effects of the derecognition on the Bank's consolidated net income for fiscal 2004 and 2005 and for the nine months ended 30 September 2006 could not be quantified. The Bank recognized these receivables in accordance with PFRS after the Bank acquired substantially all of Bankard's assets (including credit card receivables) in December 2006. The sale and transfer of the credit card receivables are in accordance with existing accounting standards. The BSP confirmation of this transaction was subsequently obtained by the Bank on 15 March 2007.

- Bankard obtained BSP approval for it to stagger the booking of ₱3.6 billion required additional allowance for impairment as of 31 December 2003 for a period of seven years starting in fiscal 2004. Applicable accounting standards in the Philippines, however, require the full recognition of required allowance for impairment against current operations in the period such losses were determined. In 2006, Bankard sold and transferred to the Bank certain credit card receivables, ₱2.8 billion of which were approved by the BSP for the staggering scheme. After the sale and transfer of the receivables, the Bank charged in fiscal 2006 an impairment loss of ₱162.1 million of such receivables and wrote-off the remaining balance of ₱2.6 billion against allowance for impairment, instead of against operations. Had Bankard recognized the required allowance for impairment in the period the losses were determined and had the subsequent write-off of the impaired credit card receivables been charged against 2006 operation, both balances of the loans and receivables account and the surplus account would have decreased by ₱3.4 billion, ₱3.2 billion and ₱2.6 billion as of 31 December 2004, 2005 and 2006, respectively, and by ₱2.7 billion as of 30 September 2007. Further, the Bank's net income would have increased by ₱180.1 million in each of fiscal 2004 and 2005, and decreased by ₱2.1 billion in fiscal 2006.

- The Bank's auditors also qualified their respective audit reports for fiscal 2004 and 2005 with respect to the recognition by Bankard of deferred tax assets ("DTAs") arising from allowance for impairment amounting to ₱518.0 million. Under accounting standards, DTAs shall be recognized only to the extent that it is probable that taxable income will be available against which the benefits of the DTAs can be utilized. However, in 2006, the Bank restated its 2005 financial statements to derecognize the DTAs. Accordingly, the auditor for fiscal 2005 and 2006 no longer qualified its report in this regard.

Certain of these deviations from accounting standards are allowed by the BSP under the SPV Act or otherwise. However, there can be no assurances that the BSP will not change its policies to align its policies with PFRS/PAS. If the BSP were to change its policies, or if the Bank were to make adjustments to its financial statements to make them fully consistent with PFRS/PAS, the Bank's impairment losses would increase resulting in a decrease in net income. If the Bank were to make any such adjustments to its financial statements, it may restate the financial statements of previous years, including the financial statements included in this Offering Circular. The Bank's financial statements included in this Offering Circular may not be comparable with the financial statements of other banks in the Philippines and may not be comparable with the Bank's future or past financial statements that have been prepared on a different basis without such qualifications.

The results of the Bank's treasury operations have comprised a significant portion of its operating income and may vary significantly from time to time

In recent years, the Bank's operating income has been highly dependent on gains from treasury operations. Trading and foreign exchange gains were ₱1.3 billion, ₱1.1 billion and ₱2.1 billion for fiscal 2004, 2005 and

2006, respectively, which represented 12.8%, 9.7% and 17.2% of operating income (net interest income and other operating income) for the respective periods. In the nine months ended 30 September 2006 and 2007, trading and foreign exchange gains amounted to ₱0.6 billion and ₱1.4 billion, respectively, or 7.8% and 14.2% of the Bank's net operating income for the period. The Bank's trading and foreign exchange gains are inherently volatile as the price of such trading securities are subject to economic, political and other conditions that may fluctuate from time to time. For example, gains on trading slowed in May and June 2006 when the Government temporarily increased interest rates, and increased significantly in the fourth quarter of fiscal 2006 due to favorable market conditions, which may not be sustainable. There can be no assurance that, in the future, the Bank will be able to realize an amount of trading and foreign exchange gains that is similar to the gains it realized in fiscal 2004 through 2006, that it will not incur a loss from such trading or that it will not hold unto its trading and investment securities to realize interest income, any or all of which could have a material adverse effect on the Bank's future net income.

A substantial portion of the Bank's assets are held in the form of Government securities. As of 30 September 2007, the Bank held ₱17.4 billion and ₱21.9 billion of Peso- and foreign currency- denominated Government securities, respectively, which comprised 7.7% and 9.7%, respectively, of its total assets. Such instruments are subject not only to market fluctuations but to political or economic changes in the Government's sovereign rating. The long-term local currency sovereign rating and the long-term foreign currency sovereign rating of the Philippines, by Standard & Poor's Ratings Services, a division of the McGraw-Hill companies, was downgraded from 'BBB' and 'BB' to 'BB+' and 'BB' respectively, with a stable outlook in January 2005 and 'BB+' and 'BB-' with a negative outlook in July 2005. The outlook was revised upwards to stable in February 2006. In addition, Moody's Investors Service announced a downgrade of the Philippines' long term foreign and local currency ratings from 'Ba2' to 'B1' with a stable outlook in February 2005 and to 'B1' with a negative outlook in July 2005. The outlook was revised upwards to stable in November 2006. These downgrades were largely attributable to political uncertainties, high debt levels and changes in tax policies. There can be no assurance that the rating of Philippine sovereign debt will not be subject to further downgrades. Furthermore, should the Government be unable to service its obligations, the Bank would suffer a material adverse impact on its financial condition.

The Bank may continue to face increasing levels of NPLs and provisions for impairment losses on loans

The Bank's results of operations have been, and continue to be, negatively affected by the level of its NPLs. For fiscal 2004, 2005 and 2006 and the nine months ended 30 September 2007, the Bank made charges to income provisions for impairments of ₱2.2 billion, ₱1.6 billion, ₱1.7 billion and ₱1.2 billion, respectively, representing approximately 42.6%, 21.9%, 24.1% and 18.7% of the Bank's net interest income for these periods. Ongoing volatile economic conditions in the Philippines continue to adversely affect many of the Bank's customers, causing uncertainty regarding their ability to fulfill their loan obligations thus significantly increasing the Bank's exposure to credit risk. These and other factors could result in an increased number of NPLs in the future and would require the Bank to book additional provisions for impairment on loans. While the Bank has instituted more aggressive NPL disposal activities and stricter credit processes, there can be no assurance that the Bank will be successful in continuing to reduce its NPL levels. An increase in the Bank's NPLs could have a material adverse effect on its financial condition, capital adequacy and results of operations. Part of the Bank's NPL disposal strategy is to continue to sell NPLs to SPVs. The Bank may not be able to sell its NPLs at commercially reasonable terms, if at all. In addition, certain of the Bank's past sales to SPVs have not sufficiently transferred the risks and rewards of the sold NPLs to the SPVs in accordance with PFRS/PAS. If the Bank were to include these NPLs in its statement of condition, it would be required to increase its impairment losses and its financial condition and results of operations would be negatively affected.

The Bank may not be successful in implementing new business strategies or penetrating new markets

The Bank's business strategy includes expanding the range of its products and services in order to diversify its revenue sources. For example, the Bank has targeted overseas remittances and loans to SMEs as key areas of growth. In addition, the Bank, through its subsidiary RSB, is expanding its consumer loan operations. Expansion of the Bank's business activities to increase the number of financial products and services that it offers exposes it to a number of risks and challenges including, among others, the following:

- New and expanded business activities may require greater marketing and compliance costs than the Bank's traditional services;
- New and expanded business activities may have less growth or profit potential than the Bank anticipates, and there can be no assurance that new business activities will become profitable at the level the Bank desires or at all;

- The Bank may fail to identify and offer attractive new services in a timely fashion, putting it at a disadvantage with competitors;
- The Bank's competitors may have substantially greater experience and resources for the new and expanded business activities and thus the Bank may not be able to attract customers from its competitors;
- The Bank may need to enhance the capability of its IT systems to support a broader range of activities; and
- Economic conditions, such as rising interest rates or inflation, could hinder the Bank's expansion, particularly in the consumer loan industry.

The Bank's inability to implement its business strategy could have a material adverse effect on its business, financial condition and results of operations.

Increased exposure to consumer debt could result in increased delinquencies in the Bank's loan and credit card portfolios

The Bank, primarily through RSB, has expanded its consumer loan operations. In addition, the Bank plans to expand its credit card operations. These developments increase the Bank's exposure to consumer debt and changes in general economic conditions affecting Philippine consumers. Accordingly, economic difficulties in the Philippines that have a significant adverse effect on Philippine consumers could result in reduced growth and deterioration in the credit quality of the Bank's personal loan and credit card portfolios. For example, a rise in unemployment or an increase in interest rates could have an adverse impact on the ability of borrowers to make payments and increase the likelihood of potential defaults, while reducing demand for consumer loans. In addition, the number of loan accounts may be negatively affected by declines in household income, public concerns about unemployment or other negative macroeconomic factors.

Until December 2006, the Bank operated its credit card operations through Bankard. Bankard operated at a loss since fiscal 2004, including a loss of ₱422.4 million in fiscal 2005 and a loss of ₱597.6 million in fiscal 2006. In fiscal 2006, the Bank agreed to sell its interest in Bankard but the transaction was not consummated. In anticipation of the sale, the Bank reduced the credit card operations of Bankard in fiscal 2006. There can be no assurances that the Bank will be successful in its credit card operations or that it will not continue to incur losses. Continued losses from credit card operations will negatively affect the Bank's results of operations.

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

As of 31 December 2006 and 30 September 2007, respectively, the Bank's secured loans represented 74.1% and 62.9% of the Bank's total loans. As of that date, 50.7% and 56.4%, respectively, of the collateral on these loans consisted of real estate properties. The Bank may not be able to recover in full the value of any collateral or enforce any guarantee due, in part, to difficulties and delays involved in enforcing such obligations through the Philippine legal system. To foreclose on collateral or enforce a guarantee, banks in the Philippines are required to follow certain procedures specified by Philippine law. The resulting delays can 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 Bank to legal liability while in possession of the collateral. These difficulties may significantly reduce the Bank's ability to realize the value of its collateral and therefore the effectiveness of taking security for the loans it grants. The Bank records foreclosed properties at the lower of the bid price, and the loan balance plus accrued interest net of any related allowance for impairment at the time of foreclosures attributable allowances, if any. At each balance sheet date, the Bank reduces the carrying values of the foreclosed properties by the amounts that they exceed their latest appraised values, in accordance with PFRS/PAS and BSP regulations. Furthermore, the Bank may incur expenses to maintain such properties and prevent their deterioration. In realizing cash value for such properties, the Bank may incur further expenses such as legal fees and taxes associated with such realization.

The Bank has a high exposure to the Philippine property market through ROPA and its lending to customers in the real estate industry

The Bank has significant exposure to the Philippine property market due to the level of its holdings in ROPA and its loans to customers in the real estate industry. The Bank acquires ROPA when it forecloses on the collateral provided by a borrower. Accordingly, the level of the Bank's ROPA varies based on the level of its NPLs. As of 31 December 2006 and 30 September 2007, the Bank's gross ROPA amounted to approximately ₱12.1 billion and ₱10.2 billion, respectively, which represent 5.5% and 4.6%, respectively, of the Bank's total tangible assets and 56.8% and 38.9%, respectively, of its tangible equity (excluding DTA and goodwill). Its outstanding loans to customers in the real estate industry amounted to ₱36.3 billion as of 31 December 2006 and ₱34.7 billion as of 30 September 2007, representing 42.9% and 36.0%, respectively, of its total loans. The Bank periodically disposes of its ROPA in and through negotiated sales at prevailing market prices, which are largely determined by purchasers. 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 recent political and economic developments.

To the extent that property values decline in the future, there can be no assurance that the Bank will be able to sell and recover the value of the ROPA stated in the financial statements or that the ability of the Bank's customers in the real estate industry to make timely payment on their loans will not deteriorate. Furthermore, in an extended downturn in the property market, and given the Bank's significant amount of ROPA, it may take a number of years before the Bank is able to realize a significant part of the value of its ROPA. Finally, the Bank is required by BSP guidelines to recognize annual provisions against ROPA which have been held for a period of more than five years. A minimum provision of 10.0% of the book value of the ROPA is required to be made annually starting in the sixth year, increasing incrementally to a required provision of 50.0% at the end of the tenth year. As of 31 December 2006 and 30 September 2007, approximately ₱4.8 billion and ₱3.5 billion of ROPA, respectively, had been held by the Bank for more than five years and the provisions for these ROPA amounted to ₱766.6 million and ₱305.2 million, respectively. As a result of these provisioning requirements, if the Bank is unable to dispose of its ROPA, it may be required to recognize levels of provisions in future years which are higher than those currently recognized by the Bank. Furthermore, if the Bank's customers in the real estate industry fail to make timely payment on their loans, the Bank may have to set aside additional provisions for impairment losses. Accordingly, an extended downturn in the Philippine property sector could increase the level of the Bank's provisions set against its ROPA or its loans extended to customers in the real estate industry, reduce the Bank's net income and consequently adversely affect the Bank's business, financial condition and results of operations.

The Bank may have to comply with stricter regulations and guidelines issued by regulatory authorities in the Philippines, such as the BSP and the Bureau of Internal Revenue (the "BIR")

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 BIR has also sent the Bank, as well as other banks, a series of demand letters for the payment of deficiency gross receipts tax ("GRT") and documentary stamp tax ("DST") on certain accounts of the Bank's foreign currency deposit unit ("FCDU"). The BIR's assessment of the deficiency GRT and DST of the FCDU was based on the deletion of the phrase "shall be exempt from all taxes" in Section 24, now Sections 27 and 28 of the Philippine Tax Code. The Bank, however, argued that the removal of the exemptions from GRT and DST was not contemplated under the Comprehensive Tax Reform Program ("CTRP") and that the deletion of the phrase "shall be exempt from all taxes" is the result of inaccurate drafting of the amendment of the tax provisions of FCDUs rather than of legislative intent. The Bank has initially filed a protest to the BIR's claim, however, in 2007 the Parent Company and RSB settled the tax assessment on GRT and DST through availment of the tax abatement program of the BIR.

The Bank's provisioning policies in respect of classified loans require significant subjective determinations which may increase the variation of application of such policies

BSP regulations require that Philippine banks classify loans that have a greater-than-normal risk into four different categories corresponding to various levels of credit risk: especially mentioned, substandard, doubtful and loss. Generally, the classification of loans depends on a combination of a number of qualitative and quantitative factors, such as the number of months that payment is in arrears, the type of loan, the terms of the loan and the level of collateral coverage. These requirements have in the past been changed by the BSP. Periodic examination by the BSP of these classifications in the future may also result in changes being made by the Bank to such classifications and to the factors relevant thereto. As part of its move to compliance with PFRS/PAS, in December 2005 the Bank re-evaluated its NPLs and its collateral by the present value of the expected future cashflows realizable from its loans in estimating allowance for impairment.

The level of provisions currently recognized by the Bank in respect of its loan portfolio depends largely on the estimated value of the collateral coverage for the portfolio, as well as the Bank's evaluation of the credit position of its borrowers and on the classification of a loan. If the Bank's evaluations or determinations are inaccurate, the level of the Bank's provisions may not be adequate to cover actual losses resulting from its existing classified loan portfolio. The Bank may also have to increase its level of provisions if there is any deterioration in the overall credit quality of the Bank's existing loan portfolio, including the value of the underlying collateral. In particular, the amount of the Bank's reported loan losses may increase in the future as a result of factors beyond the Bank's control. In addition, it may take a number of years before the Bank is able to realize a significant part of the value of its ROPA and the Bank is required by BSP guidelines to recognize annual provisions against ROPA which have been held for a period of more than five years.

The Bank does not have an expanded derivatives license

Under Section X602 of the BSP's Manual of Regulations for Banks (the "Manual"), all banks and their subsidiaries or affiliates offering derivatives products and engaging in financial derivatives transactions are required to obtain a derivatives license. A derivatives license may be either regular or expanded. A regular derivatives license allows the holder to engage in regular derivatives transactions, such as swaps and forwards; while an expanded license allows the holder to engage in all other types of financial derivatives products. An end-user does not need a derivatives license so long as there exists an underlying transaction, and the derivatives transaction is for a hedging purpose and not used for speculation.

The Bank previously applied for an expanded derivatives license but withdrew the application. The Bank continues to engage in regular derivatives transactions, however, on the basis of a hold-over transitory provision in BSP Circular No. 102 and the provision in Section X602 allowing banks to enter into certain derivatives transactions without a derivatives license. The Bank has, in the past, recognized significant gains from derivatives transactions. The Bank expects to apply for an expanded license in the future but there can be no assurance as to the timing of such application or, if the application is made, whether it will be successful. The absence of the license may adversely affect the derivatives operations of the Bank, including its ability to purchase certain forms of credit protection, which could negatively affect its results of operations and financial condition.

The Bank is effectively controlled by one shareholder group, with which it has extensive business connections

The Bank is effectively controlled by YGC. As of 31 December 2006 and 30 September 2007, the Yuchengco family, primarily through a holding company, Pan Malayan, owned approximately 54.2% and 43.6% of the Bank's common shares outstanding, respectively. In addition, as of these dates, other members of YGC owned or controlled an additional 12.9% and 11% of the Bank's issued and outstanding shares. There can be no assurance that the interests of YGC will necessarily coincide with the interests of minority shareholders.

In addition, the Bank's loans to YGC amounted to approximately 10.6% and 9.2% of the Bank's total loan portfolio as of 31 December 2006 and 30 September 2007, respectively. YGC has been the Bank's controlling shareholder for over forty years and is closely associated with the Bank. If there is any public perception in the Philippines that the Bank is reliant on the financial condition of YGC, there could be a loss of confidence in the Bank's solvency among its depositors or creditors in the event of deterioration in the financial condition of YGC. In particular, this could result in withdrawals of deposits or a decrease in new deposits beyond levels anticipated by the Bank, or otherwise have a material adverse effect on the Bank's financial condition and results of operation. Furthermore, the Bank relies on its relationship with YGC for certain business synergies, including access to YGC clients and prospective clients and joint product development. As a result, a deterioration in the financial condition of YGC or negative publicity regarding YGC or any other entities owned or controlled by YGC could have a material adverse effect on the Bank's financial condition and business opportunities.

Until December 2006, the Bank's second-largest shareholder was UFJ. In December 2006, UFJ (which, after its merger in 2004 with Mitsubishi Tokyo Financial Group, was known as The Bank of Tokyo-Mitsubishi UFJ Limited) disposed of its entire shareholdings in the Bank, with the majority being sold to Spinnaker. As of 31 December 2006 and 30 September 2007, Spinnaker owned 17.1% and 13.2% of the Bank's outstanding common shares, respectively. Through its shareholding, Spinnaker may have the right to elect up to two directors to the Bank's Board. The interests of Spinnaker may not be aligned with those of the Bank or its other shareholders.

Risks Relating to the Philippine Banking Industry

The Philippine banking industry is highly competitive and increasing competition may inhibit the implementation of the Bank's growth strategy

The Bank is subject to significant levels of competition in all areas of its business from many other Philippine banks and branches of foreign banks, including competitors which, in some instances, have greater financial and other capital resources, a greater market share, and greater name recognition than the Bank. The banking industry in the Philippines 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. See "Philippine Banking Industry".

In the future, the Bank may face increased competition from other financial institutions offering a wider range of commercial banking services and products than the Bank and that have 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 occupying domestic banks;
- Domestic banks entering into strategic alliances with foreign banks with significant financial and management resources; and
- Continued consolidation in the banking sector.

There can be no assurance that the Bank will be able to compete effectively in the face of such increased competition. In addition, the Bank faces intense competition in areas it has identified for growth such as consumer loans and remittances. Increased competition may make it difficult for the Bank to increase the size of its loan portfolio and deposit base, as well as cause increased pricing competition, which could have a material adverse effect on its margins, results of operations and financial condition and inhibit the Bank's ability to implement its growth strategy.

In addition, the Bank may face increasing competition for Japanese clients. UFJ's share disposal was prompted by its merger with The Bank of Tokyo-Mitsubishi, which already has a presence in the Philippines. There can be no assurances that the Bank's Japanese related business will not suffer because of perceptions that the Bank no longer has a strong Japanese alliance.

The Bank's ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries

The Bank is exposed to a variety of risks, including credit risk, market risk, portfolio risk, foreign exchange risk and operational risk. The effectiveness of the Bank's risk management is 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, the information generated by different groups within the Bank may be incomplete or obsolete. The Bank may also have developed credit screening standards in response to such inadequacies in quality of credit information that are different from, or inferior to, the standards used by its international competitors. As a result, the Bank's ability to assess, monitor and manage risks inherent in its business may not meet the standards of its counterparts in more developed countries. If the Bank is unable to acquire or develop in the future the technology, skill-sets and systems necessary to attain such standards, or if the Bank's standards are not as rigorous as international standards, it could have a material adverse effect on the Bank's ability to manage these risks and on the Bank's financial condition, liquidity and results of operations.

The Philippines adopted capital adequacy requirements based on the Basel Capital Accord in July 2001. The Philippines is expected to adopt new capital adequacy requirements under Basel II in July 2007.

Risks Relating to the Philippines

Substantially all of the Bank's operations and assets are based in the Philippines; a slowdown in economic growth in the Philippines could materially adversely affect its business

Substantially all of the Bank's business operations and assets are based in the Philippines. As a result, the Bank's income, results of operations and the quality and growth of its assets depend, to a large 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 Philippine currency 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 sovereign 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. In particular, the significant depreciation of the peso made it difficult for many Philippine companies with peso revenue streams and significant U.S. dollar or other foreign currency-denominated loans or costs to meet their repayment obligations. While the Philippine economy registered positive economic growth in the period from 1999 to 2001 as it recovered from the Asian economic crisis, it continues to face a significant budget deficit, limited foreign currency reserves, a volatile peso exchange rate and a relatively weak bank sector.

In February 2007, the Government announced that the budget deficit for fiscal 2006 was ₱62.2 billion, below the programmed deficit of ₱124.9 billion for the same period. In October 2007, the Government announced that the budget deficit for the first nine months of 2007 was ₱40.0 billion, below the programmed deficit of ₱54.0 billion for the same period. While the deficit for the first nine months of 2007 was lower than the programmed amount, there can be no assurance that the budget deficit will not increase or that measures taken to reduce the current deficit will be successful.

Any deterioration in economic conditions in the Philippines as a result of these or other factors, including a significant depreciation of the Peso or increase in interest rates, could materially adversely affect the Bank's borrowers and contractual counter parties. This, in turn, could materially and adversely affect the Bank's financial condition and results of operations, including the Bank's ability to grow its asset portfolio, the quality of the Bank's assets and its ability to implement the Bank's business strategy.

Any political instability in the Philippines in the future may have a negative effect on the financial results of the Bank

The Philippines has from time to time experienced political and military instability. In February 1986, a peaceful civilian and military uprising ended the 21-year rule of President Ferdinand Marcos and installed Corazon Aquino as President of the Philippines. Between 1986 and 1989, there were a number of attempted coups d'etat against the Aquino administration, none of which was successful. Political conditions in the Philippines were generally stable during the mid to late 1990s following the election of Fidel Ramos as President in 1992.

However, in 2000 his successor, Joseph Estrada, was subject to allegations of corruption, culminating in impeachment proceedings, mass public protests in Manila, withdrawal of support of the military and his removal from office. The then Vice President, Gloria Macapagal-Arroyo, was sworn in as President on 20 January 2001. Estrada was eventually convicted of by a special tribunal on charges of plunder on 12 September 2007, but he was pardoned by President Arroyo on 25 October 2007.

Since 2001, when President Arroyo came to power, the economy has been negatively affected from time to time by political scandals and attempted coup d'etats.

On 27 July 2003, a group of 70 officers and over 200 soldiers from the Philippine Army, Navy and Air Force attempted a coup d'etat against the Macapagal-Arroyo administration, which ended after 20 hours of negotiation between the group and the Government. These officers and soldiers are currently facing civil, criminal and military charges. Certain individuals identified with the administration of former President Estrada, have also been implicated as supporters of the failed coup d'etat.

In May 2004, the Philippines held presidential elections as well as elections for the Senate and House of Representatives. President Macapagal-Arroyo was elected for a full six-year term. Allegations of fraud committed during the May 2004 elections have intensified since early June 2005 in light of revelations that President Arroyo had conversations with an official from the independent Commission on Elections during the counting of votes shortly after the May 2004 presidential elections. On 27 June 2005, President Arroyo, in a statement broadcast live on national television, admitted her participation in telephone conversations with an official of the Commission on Elections. As a result of these controversies, several members of the Arroyo Cabinet resigned their posts and, along with certain government officials, various opposition groups and individuals, called for the resignation or impeachment of President Arroyo. Impeachment complaints based on allegations of culpable violation of the Constitution, graft and corruption and betrayal of public trust were filed against President Arroyo with the House of Representatives. On 31 August 2005, the House Committee on Justice had voted to quash all impeachment complaints previously filed. On 6 September 2005, the House of Representatives voted to uphold the decision of the House Committee on Justice.

One year later, a second impeachment complaint was filed against President Arroyo with the House of Representatives. However, on 16 August 2006, the House Committee on Justice voted to reject the said complaint. On 24 August 2006, the House of Representatives upheld the decision of the House Committee on Justice by a vote of 173 for and 32 against, with one abstention. Six congressmen present did not vote and 20 were absent.

On 24 February 2006, President Arroyo declared a State of Emergency after security forces thwarted what they claimed was a plot to overthrow the President. The purported coup d'etat coincided with demonstrations marking the 20th anniversary of the "People Power" revolution that toppled former President Marcos. The President lifted the state of emergency on 3 March 2006. On 3 May 2006, the Supreme Court ruled that certain acts committed by law enforcement officials in furtherance of Proclamation 1017 were unconstitutional.

On 5 October 2007, a few months after the May 2007 local and national elections, a new impeachment complaint was filed against President Arroyo following bribery allegations involving government officials allegedly involved in the approval of a government contract with a Chinese telecommunications company.

On 29 November 2007, Philippine Senator Trillanes, who is facing charges for the July 2003 coup d'etat, walked out of his court hearing and seized a hotel in Makati City to demand President Arroyo to step down. He and his companions surrendered after a six-hour stand-off. There have been media reports that opposition parties, including former members of the military, continue to call for President Arroyo's resignation. No assurance can be given that the political environment in the Philippines will stabilize and any political instability in the future may have an adverse effect on the Bank's business, results of operations and financial condition.

Furthermore, the Philippines has been subject to an increasing number of terrorist attacks in the past three years. The Philippine army has been in conflict with the Abu Sayyaf organization which has been identified as being responsible for kidnapping and terrorist activities in the Philippines. Recently, there have been a series of bombings in the southern part of the Philippines. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, including possibly the Abu Sayyaf organization, which has ties to the Al-Qaeda terrorist network. The Abu Sayaff has claimed responsibility for the bomb explosions that happened in Makati City, Davao City and General Santos City on 14 February 2005. There can be no assurance that the Philippines will not be subject to further acts of terrorism in the future.

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

While a principal objective of Philippine securities laws and the PSE listing rules 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 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 its Board of Directors, whichever is the lower number. The Bank currently has four independent directors. Many other jurisdictions require significantly more independent directors.

Foreign exchange regulations may prevent the Bank from making payments in foreign currencies

Under BSP regulations, as a general rule, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. Restrictions exist on the sale and purchase of foreign exchange in the banking system. The Government of the Philippines has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency-denominated obligations. The Monetary Board of the BSP (the "Monetary Board"), with the approval of the President of the Philippines, has statutory authority, during a foreign exchange crisis or in times of national emergency, to suspend temporarily or restrict sales of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to BSP or its designee. The Bank is not aware of any pending proposals by the Government regarding such restrictions. The Government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange. Any restrictions imposed in the future pursuant to such statutory authority could adversely affect the ability of the Bank to source foreign currency to comply with its foreign currency-denominated obligations.

Risks Relating to the Notes

Unsecured subordinated notes

The Notes will constitute direct, unconditional, unsecured and subordinated obligations of the Bank, and will at all times, rank *pari passu* and without any preference among themselves.

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

The Notes, like other subordinated indebtedness of the Bank, are subordinated to the claims of depositors and ordinary creditors, 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 Depository Insurance Corporation, or any other person.

Limitation as to use as collateral

The 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 Notes.

Limited right to accelerate

If the Bank fails to make a payment on the Notes when due, the Noteholders may not accelerate payment of such Notes except in the event of insolvency of the Bank. Recovery of amounts owing in respect of the Notes against the Bank is available to the Noteholders only through the institution of proceedings for insolvency of the Bank.

Limitation on transfers

In general, the Notes may be issued or transferred to any person of legal age, regardless of nationality or residency, any corporation, association, partnership, trust account, fund or entity, regardless of place of incorporation or domicile, except, in each case, to Prohibited Noteholders (as defined below).

Pursuant to the Governing Regulations, the following persons and entities are prohibited from purchasing and/or holding any Notes of the Bank ("Prohibited Noteholders"): (a) subsidiaries and affiliates of the Bank and their respective subsidiaries and affiliates; (b) CTFs/UITFs managed by the Trust Department of the Bank, its subsidiaries and affiliates, or other related entities; or (c) other funds being managed by the Trust Department of the Bank, its subsidiaries and affiliates or other related entities where (i) the fund owners have not given prior authority or instruction to the Trust Department to purchase or invest in the Notes or (ii) the authority or instruction of the fund owner and his understanding of the risk involved in purchasing or investing in the Notes are not fully documented. For purposes hereof, a "subsidiary" means, at any particular time, a company which is then directly or indirectly controlled, or more than 50% of whose issued voting equity share capital (or equivalent) is then beneficially owned, by the Bank and/or one or more of its subsidiaries or affiliates. An "affiliate" means, at any particular time, a company at least 20% but not more than 50% of whose issued voting equity share capital is then owned by the Bank. For a company to be "controlled" by another means that the other (whether directly or indirectly and whether by the 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.

Subject to the Terms and Conditions relating to Secondary Trading, transfers or assignments of the Notes may generally be done at any time.

Liquidity of the Notes

Noteholders are prohibited by the BSP from having the Notes redeemed prior to its maturity. While no established market for bank-issued unsecured subordinated notes exists in the Philippines, Noteholders, however, can sell their Notes in the secondary market subject to market prices through the Market Maker or other institutions authorized by the BSP or the Philippine Dealing and Exchange Corporation ("PDEx"), upon the listing of the Notes in PDEx.

Price risk

The price of the Notes in the secondary market is subject to market fluctuations which may result in investments in the Notes being reduced in value. The Notes are not insured by the Bank or any of its branches, affiliates or subsidiaries. During adverse market conditions, a Noteholder may not be able to liquidate all or part of the Notes as and when required.

Taxation of the Notes

If, because of changes in the interpretations or conventions regarding current taxes, such that any payments of principal and/or interest under the 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 Bank shall be required by law or regulation to deduct or withhold such Taxes, then the Bank shall make the necessary withholding or deduction for the account of the Noteholder concerned; provided, however, that all sums payable by the Bank 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.

CAPITALIZATION AND INDEBTEDNESS OF THE BANK

The following table sets out the unaudited consolidated capitalization and indebtedness of the Bank (i) as of the year ended 31 December 2006 and nine months ended 30 September 2007, and (ii) as adjusted for proposed issuance of the Notes for both periods in question. See "Index to Financial Statements".

	For the year ended 31 December 2006		For the nine months ended 30 September 2007	
	Actual	**Adjusted**	**Actual**	**Adjusted**
	(₱ millions)			
CAPITALIZATION AND INDEBTEDNESS OF THE BANK				
Indebtedness				
Short-term liabilities				
Deposit liabilities	152,903.3	152,903.3	153,762.3	153,762.3
Bills payable and other liabilities	27,174.3	27,174.3	23,454.5	23,454.5
Total short-term liabilities	180,077.6	180,077.6	177,216.8	177,216.8
Long-term liabilities				
Deposit liabilities	4,646.9	4,646.9	4,149.1	4,149.1
Bills payable and other liabilities	10,190.0	10,190.0	10,731.4	10,731.4
Subordinated debt	5,427.7	12,427.7	5,220.3	12,220.3
Total long-term liabilities	20,264.6	27,264.6	20,100.8	27,100.8
Minority interest	(283.0)	(283.0)	(325.1)	(325.1)
Capitalization				
Issued share capital	7,384.6	7,384.6	10,488.0	10,488.0
Hybrid capital securities	4,883.1	4,883.1	4,883.1	4,883.1
Capital paid in excess of par value	2,118.7	2,118.7	5,571.7	5,571.7
Retained earnings				
Appropriated	247.6	247.6	255.5	255.5
Unappropriated	5,448.0	5,448.0	6,045.0	6,045.0
Others	3,591.8	3,591.8	1,201.3	1,201.3
Total capital funds	23,673.8	23,673.8	28,444.6	28,444.6
Total capitalization and indebtedness(1)(2)	223,733.0	230,733.0	225,437.1	232,437.1

Notes:

(1) As of 30 September 2007, the Bank had total outstanding contingent liabilities of ₱93.0 billion, which includes trust department accounts, forward exchange sold, inward bills for collection, forward exchange bought and others.

(2) There has been no material change in the capitalization, indebtedness or contingent liabilities (including guarantees) of the Bank since 30 September 2007.

TERMS AND CONDITIONS OF THE NOTES

Issuer	**Rizal Commercial Banking Corporation**
Total Issue Amount	₱7.0 Billion in aggregate principal.
Joint Lead Arrangers	ING Bank N.V. and The Hongkong and Shanghai Banking Corporation Limited
Governing Regulation	Bangko Sentral ng Pilipinas ("**BSP**") Memorandum to All Banks and Non-Bank Financial Institutions dated 17 February 2003 and Circular No. 280 (2001) 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.
Purpose of Issuance	To raise additional Tier 2 capital for the Issuer in order to redeem its existing Peso lower Tier 2 notes and to further increase and strengthen its capital base.
Denomination	A minimum investment of ₱500,000.00 and in increments of ₱100,000.00 thereafter.
Issue Price	100% of the nominal principal amount.
Offer Period	The period when the Notes are offered for sale by the Issuer through the Selling Agents to prospective Noteholders, commencing on the start of business hours on 4 February 2008 and ending close of business hours on 15 February 2008 or such other dates as may be determined by the Issuer and the Joint Lead Arrangers.
Issue Date	On or around 22 February 2008 or a date as may be agreed upon by the Issuer and the Joint Lead Arrangers. The settlement date for the Notes shall also be the Issue Date.
Maturity Date	The last day of the 40th Interest Period from Issue Date, which is on 22 February 2018.
Maturity Value	Unless the Notes have been redeemed by the Issuer prior to Maturity Date, the Notes will be redeemed on Maturity Date at its nominal principal amount at their Issue Price plus unpaid accrued Interest. If the Maturity Date falls on a date that is not a Banking Day, the Maturity Date shall fall on the immediately succeeding Banking Day without adjustment to interest payable in respect of the Notes.
Interest	The Notes will bear interest on its principal from and including the Issue Date to but excluding the Optional Redemption Date at the stipulated Interest Rate. In the event the Notes are not redeemed on the Optional Redemption Date, the Notes will bear interest on its principal from and including the Optional Redemption Date to but excluding the Maturity Date, at the stipulated Step-Up Interest Rate. In such an event, interest at the Step-Up Interest Rate will be payable to the Noteholders in lieu of the Interest Rate beginning the 21st Interest Period up to the last Interest Period. Interest in respect of the Notes will be calculated by the Paying Agent on a 30/360-day count basis and will be paid in arrear quarterly on the last day of each successive Interest Period (each an "**Interest Payment Date**"). If the Interest Payment Date is not a Banking Day, interest will be paid on the immediately succeeding Banking Day, without adjustment to the amount of interest to be paid. Provided further, that if such succeeding Banking Day falls into the next calendar month, the Interest Payment Date shall be the immediately preceding Banking Day, in either case, without adjustment to the amount of interest to be paid. Provided further, that if such succeeding Banking Day falls into the next calendar month, the

Interest Payment Date shall be the immediately preceding Banking Day, in either case, without adjustment to the amount of interest to be paid.

Interest Period .... The period commencing on the Issue Date and having a duration of three (3) months and, thereafter, each successive three (3)- month period commencing on the last day of the immediately preceding Interest Period up to, but excluding the first day of the immediately succeeding Interest Period, but in the case of the last Interest Period, it will be the period from and including the last day of the immediately preceding Interest Period up to, but excluding, the Maturity Date.

Interest Rate .... 7.0% per annum

Step-Up Interest Rate .... The sum of (a) the Reset Benchmark multiplied by 80%, and (b) the Step-Up Spread

Step-Up Spread .... 150% x {Initial Interest Rate - (Initial Benchmark x 80%)}, which is equivalent to 3.53304%.

Reset Date .... The first day of the 21st Interest Period.

Initial Benchmark .... The prevailing rate for a 5-year on the run Fixed Rate Treasury Notes ("**FXTNs**") as published in the PDST-F section of the Philippine Dealing and Exchange Corporation ("**PDEx**") Market Page under the heading "Bid Yield" as of 11:16 a.m., Manila time, (or its successor benchmark rate) on the commencement of the Offer Period.

If there is no rate appearing on the PDEx Market Page under the heading "Bid Yield" as of 11:16 am, Manila time, on the commencement of the Offer Period, the Public Trustee will request appropriate quotes for bid yields for a 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 percent) provided that at least three rates are so quoted.

Reset Benchmark .... The 5-year FXTNs as published in 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 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 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 Notes shall be made through the Paying Agent based solely on the records of the Registrar.

Redemption at the Option of the Issuer .... On the Optional Redemption 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 (unless the Issuer's capital ratio remains more than adequate after redemption); and (y) a 30-day prior written notice to Noteholders on record; all and not less than all of the Notes may be redeemed at the instance of the Issuer at the Issue Price plus accrued and unpaid interest.

If at any time before the Optional Redemption Date there occurs (a) a change in tax status of the Notes due to changes in tax statutes and/or regulations, or (b) a determination by the BSP that the Notes do not qualify as Lower Tier 2 capital of the Issuer, the Issuer may, upon prior approval of the BSP and at least a 30-day prior written notice to the Noteholders, redeem all and not less than all of the Notes at the Issue Price plus accrued and unpaid interest.

All payments of principal and interest in respect of the Notes as a result of a redemption of the Notes prior to Maturity Date 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 the event that a withholding or deduction is required by law, 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.

Optional Redemption Date .... The day when the optional redemption is exercised by the Issuer which day shall be the first Banking Day of the 21st Interest Period.

Non-Preterminability .... The Notes shall not be redeemable or terminable at the instance of any Noteholder before Maturity Date.

Form .... The Notes will be 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 Republic 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 Notes in electronic form. A Registry Confirmation, however, will be issued by the Registrar in favor of the Noteholders in accordance with the Governing Regulation.

The electronic registry book of the Registrar and Paying Agent (the "**Registry**") shall contain the official information on the Noteholders and the amount of Notes they respectively hold, including all transfers or assignments thereof.

Eligible Noteholders .... The Notes may only be issued or transferred to any person of legal age, regardless of nationality or residency, or any corporation, association, partnership, trust account, fund or entity, regardless of place of incorporation or domicile, subject to the clause on Prohibited Noteholders and the submission of the appropriate documents to the Registrar and Paying Agent.

Noteholders .... Eligible Noteholders who, at any relevant time, appear in the Registry as the registered owners of the Notes.

Prohibited Noteholders .... The following persons and entities shall be prohibited from purchasing and/or holding any 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 / common 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 Notes or (b) the authority or instruction of the fund owner and his understanding of the risk involved in purchasing or investing in the 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.

Registrar & Paying Agent .... Philippine Depository & Trust Corp.

Public Trustee .... The Hongkong and Shanghai Banking Corporation Limited.

Selling Agents .... ING Bank N.V., The Hongkong and Shanghai Banking Corporation Limited, Multinational Investment Bancorporation, and the Limited Selling Agent.

Limited Selling Agent .... Rizal Commercial Banking Corporation, whose distribution amount will not exceed 50% of the total Issue Size in accordance with Governing Regulation.

Market Maker .... Initially, The Hongkong and Shanghai Banking Corporation, ING Bank N.V., and Multinational Investment Bancorporation, and may refer, when the circumstances warrant, to the PDEx.

Secondary Trading .... All secondary trading of the Notes shall be coursed through the 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 in connection with trading on PDEx, or to the Registrar, if applicable. Any transfer between a taxable and non-taxable person shall only be effective on an Interest Payment Date.

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

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

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

Status and Subordination .... **The Notes will constitute direct, unconditional, unsecured, and subordinated obligations of the Issuer. Claims of all the Noteholders in respect of the 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 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 NOTES, LIKE OTHER SUBORDINATED INDEBTEDNESS OF THE ISSUER, ARE SUBORDINATED TO THE CLAIMS OF DEPOSITORS AND ORDINARY CREDITORS, ARE NOT A DEPOSIT, 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, 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 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 Notes, for the circulation of the Preliminary and Offering Circulars, and for the Issuer to enter into and comply with its obligations under the 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 Notes, their terms, as may be amended or supplemented, and for the Issuer to enter into and comply with its obligations under the Notes, have been obtained and remain valid.

(d) All conditions imposed or required under the Governing Regulation, as well as regulations of the Bureau of Internal Revenue and other relevant agencies, in respect of the offer, issuance, and payment of the 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 to the various government agencies, the Joint Lead Arrangers, the Selling Agents / Market Makers and Registrar and Paying Agent, including those made available to the Noteholders, in connection with the Notes violate any statute or any rule or regulation of any government agency or office, and do not contain any untrue or misleading statement of a material fact, or omit any material fact necessary or required to be stated.

(f) The obligations of the Issuer under the 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 Notes will not conflict with, nor constitute a breach or default of, any implementing regulation, 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, corrected, 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 Notes, or its offer or issuance.

(k) The audited 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 generally accepted Philippine accounting principles and practices, and fairly represent the Issuer's 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 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 Notes.

(m) Since the issuance of the various approvals by the relevant government agencies for the offer or issuance of the 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 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 Notes and pay the principal and interest that may be due on the 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 Issuer has obtained the necessary concessions, licenses, permits, and privileges required for the conduct of the business and operations of the Issuer, its affiliates, and subsidiaries, and shall have free and continued use and exercise thereof.

(t) The Preliminary and Final Offering Circulars issued in connection with the Notes presents a fair, complete, and accurate description of the Issuer, the Notes, and the considerations that any investor in the Notes needs to know before making an informed decision to invest in the Notes.

(u) The agreements of the Issuer with the Joint Lead Arrangers, Registrar, Selling Agents, Market Makers, and Public Trustee shall comply with the provisions of Sec. X169 of the Manual of Regulations for Banks on bank service contracts. The Issuer shall be liable to the Noteholders for any damages caused by actions of the Registrar, Selling Agents, and Market Makers, which are contrary to the agreements entered into.

These representations and warranties are true and correct as of the Issue Date and shall remain true and correct as long as the Notes remain outstanding.

Affirmative Covenants . . . . The Issuer hereby covenants and agrees that, for as long as the Notes or any portion thereof 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 30 days from the date of the receipt of written notice of the 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 generally accepted accounting principles and practices in the Philippines 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 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 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 Notes in accordance with the Use of Proceeds.

(g) The Issuer shall promptly and fully pay 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 Notes at the times and in the manner specified in, and perform all its obligations, undertakings, and covenants under the Notes.

(i) The Issuer shall, as soon as available and in any event within 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, furnish the Noteholders through the Public Trustee with audited 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 financial statements being prepared in accordance with generally accepted accounting principles and practices in the Philippines consistently applied and being certified by an independent certified public accountant of recognized standing in the Philippines; and shall furnish the Public Trustee no later than 45 days from the end of each calendar quarter with its quarterly financial statements; and shall further furnish the Public Trustee within 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 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 ₱300,000,000.00, 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 work stoppage or similar action 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, (iv) 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 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 Governing Regulation, the 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 Notes, and (ii) of the issuance by any governmental agency of any cease-and-desist order suspending the distribution or sale of the 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 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 delaying, suspending, or otherwise materially and adversely affecting the transactions with respect to the Notes at the earliest time possible.

(n) The Issuer shall ensure that any documents related to the 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 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 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.

(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 Notes or any portion thereof 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.

(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 time rank pari passu in all respects with all other unsecured subordinated obligations of the Issuer covered thereunder, provided that the term "lien" shall not include (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.

(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 any right to receive any of its income or revenues unless in its ordinary course of business, or unless otherwise required by applicable law;

(h) Except to the extent required under applicable law, declare or pay any dividends (other than stock dividends) during an Event of Default or if the 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 said 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 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) As long as any obligations under the Notes remain outstanding, 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 Notes in any proceedings in respect of the Issuer for insolvency, winding up, liquidation, receivership, or other similar proceedings (the Winding-Up Proceedings);

(n) The Notes shall not be used as collateral for any loan made by the Issuer or any of its subsidiaries, if any, or affiliates.

Events of Default .... The Issuer shall be considered in default under the Notes in case any of the following events shall occur:

(a) The Issuer fails to pay any principal and/or interest due on the 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 Notes is untrue, incorrect, or misleading in any material respect.

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

(d) The Issuer or any of its subsidiaries or affiliates 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 10 days from notice by the Public Trustee to the Issuer, or is otherwise not contested 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, or (iii) will, in the reasonable opinion of the Public Trustee, adversely and materially affect the performance by the Issuer of its obligations under the Notes and pay any amount outstanding on the 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, or expropriates all or substantially all of the properties 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 ₱300,000,000.00, 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 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 more than half 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 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 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; (vi) an agreement or declaration of a moratorium in respect of or affecting all or any part of the debts of the Issuer is threatened, executed, or occurs; (vii) admitting in writing of its inability to pay its debts; or (viii) 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 lawfully to enter into, exercise its rights and perform the obligation expressed to be assumed by it under the 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;

(l) Any governmental consent, license, approval, authorization, declaration, filing or registration which is granted or required in connection with the 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 Notes may not be accelerated.

The Public Trustee shall, within three 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 more than 50% of the aggregate principal amount of the issued 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 Governing Regulation, 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 Notes on the understanding that the 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 Notes, and/or (ii) declare the principal of the Notes to be immediately due and payable, without prejudice to the other remedies available to the Noteholders, in accordance with the Governing Regulation.

Meetings of Noteholders . . . . Meetings of Noteholders shall be held in Makati City. 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 15 days nor more than 45 days prior to the date fixed for the meeting and shall likewise be published in at least two newspapers of general circulation in the Philippines (with one newspaper being either the Philippine Daily Inquirer or the Philippine Star) for two consecutive days at any time prior to the date stated in the notice for the date of the meeting.

Taxation . . . . If any payments of principal and/or interest under the 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 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 Notes because of changes in tax statutes (and not merely a change in the

	interpretation of present Tax statutes and regulations), any payments of principal and/or interest under the 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 Notes prior to stated maturity pursuant to this Master Note and the Governing Regulation, then all payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any such New Taxes, 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 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 the Makati City.

BUSINESS

Introduction

The Bank is a universal bank in the Philippines that provides a wide range of banking and other financial products and services, including commercial and retail banking, credit cards, asset management and treasury and investment banking products and services. As of 30 September 2007, excluding Government-owned and foreign banks, the Bank was the fifth largest private domestic commercial bank in the Philippines in terms of total assets, based on data available from the BSP. In terms of branches, the Bank, excluding Government-owned and foreign banks, ranked sixth in the Philippines, with a countrywide total of 301 branches as of 31 December 2007, including five extension offices.

As of 30 September 2007, the Bank's unaudited consolidated total assets and capital funds amounted to ₱225.4 billion and ₱28.1 billion, respectively. The Bank's unaudited consolidated pre-tax income and net income attributable to parent company shareholders for the nine-month period ended 30 September 2007 amounted to ₱3.0 billion and ₱2.5 billion, respectively. As of 30 September 2006, the Bank's unaudited consolidated total assets and capital funds were ₱205.9 billion and ₱15.3 billion, respectively. Its unaudited consolidated pre-tax income and net income attributable to shareholders for the nine months ended 30 September 2006 was ₱1.4 billion and ₱1.2 billion, respectively.

As of 30 September 2007, the Bank had a market capitalization on the PSE of ₱22.4 billion , ₱15.2 billion and ₱8.5 as of 31 December 2006 and 2005 respectively. The Bank's Tier 1 capital adequacy ratio and total capital adequacy ratio were 14.9% and 18.8%, respectively as of 30 September 2007, 13.3% and 20.3%, respectively, as of 31 December 2006, and 8.9% and 13.7%, respectively, as of 31 December 2005.

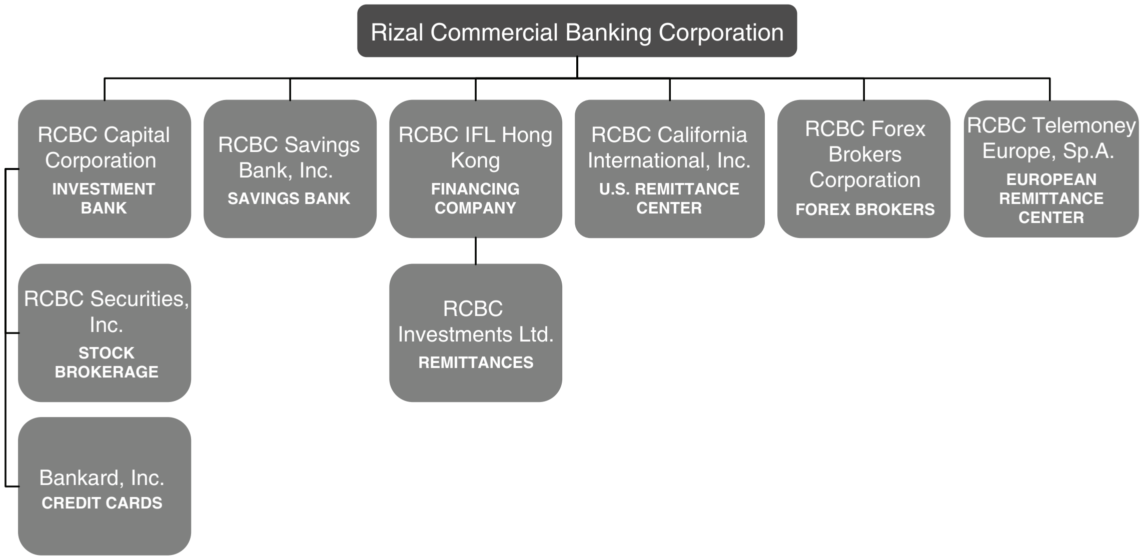
As of 31 December 2006, the Bank's audited consolidated total assets and capital funds amounted to ₱223.7 billion and 23.4 billion, respectively. The Bank's net income attributed to Parent Company's shareholders for fiscal 2006 amounted to 2.1 billion. As of 31 December 2005, the Bank's audited consolidated total assets and capital funds were ₱184.2 billion and ₱12.7 billion, respectively. Its audited consolidated pre-tax income and net income for the years ended 31 December 2006 and 31 December 2005, respectively, were ₱2.5 billion and ₱2.1 billion, and ₱2.0 billion and ₱1.3 billion.

The Bank offers commercial, corporate and consumer banking products and services throughout the Philippines, as well as treasury, cash management and remittance services. Reflecting the Bank's medium-term strategy, which is to grow its loan portfolio, corporate businesses currently account for a significant portion of the Bank's income. For the nine-month period ended 30 September 2007, the Bank's CBG was the largest contributor to its net income. The Bank's corporate banking practice focuses particularly on international corporate clients in special economic zones, Japanese and Filipino-Chinese businesses and leading Philippine and multinational corporations. Through its current affiliation with YGC and past affiliation with UFJ, it has established long-standing relationships with Japanese, Chinese and international companies in special economic zones within the Philippines.

The RBG provides a range of banking products and services mainly sold through the Bank's branch network. These include deposit products, cash management solutions, investments including trust products, and bancassurance. Aside from managing the Bank's branches, RBG also manages the Bank's nationwide automatic teller machine ("ATM") network.

The Bank also provides a full range of consumer banking products and services in the Philippines, primarily through its subsidiary, RSB. The Bank's international operations consist of its wholly-owned subsidiaries, RCBC North America and RCBC TeleMoney Europe in the United States and Italy, respectively, and its majority-owned subsidiaries RCBC IFL and RCBC Investments in Hong Kong. The Bank's relationship with other banks, exchanges and other international money transfer agencies has strengthened its remittance business used primarily by OFWs. The Bank estimates it had an approximate 9.20% share of the remittance business in the Philippines as of 31 December 2006, and 9.16% as of 30 September 2007, based on remittance volumes published by the BSP.

The organizational structure of the Bank and its key subsidiaries is as follows:



History

The Bank, incorporated under the name Rizal Development Bank, began operations as a private development bank in the province of Rizal in 1960. In 1963, the Bank received approval from the BSP to operate as a commercial bank and it began operations under its present name. In 1973, the Bank formed alliances with two foreign banks, Continental Illinois Bank and UFJ (then known as Sanwa Bank). The relationship with Continental Illinois ended in 1985 after it sold its shareholding to UFJ. In December, 2006, UFJ (now The Bank of Tokyo-Mitsubishi UFJ Limited) disposed of its entire shareholdings in the Bank, with the majority being sold to Spinnaker. As of 31 December 2006 and 31 December 2007, Yuchengco family, primarily through a holding company, the Pan Malayan owned approximately 54.2% and 42.3% of the Bank's outstanding shares, respectively. In addition, as of such dates, other members of YGC owned or controlled an additional 12.9% and 10.8% of the Bank's issued and outstanding shares and Spinnaker owned 17.1% and 13.2% of the Bank's outstanding shares.

The Bank obtained its commercial banking license in 1963 and its universal banking license in 1989 and has been listed on the PSE since 1986.

Competitive Strengths

The Bank considers the following to be its principal competitive strengths:

Sustainable size in a consolidated market, with an established operating history

The Bank is a prominent universal bank in the Philippines with extensive experience in the financial services sector extending over 47 years. The Bank offers a diversified range of banking and other financial products and services, including commercial and retail banking, credit cards, asset management and treasury and investment banking products and services. This range of products and services provides the Bank with an extensive asset base. As of 30 September 2007, excluding Government-owned and foreign banks, the Bank was the fourth largest capitalized private commercial bank in the Philippines.

Leading positions in key products

Based on the Bank's in-house market survey as of 30 September 2007, the Bank is a market leader in key business segments including investment banking (where it ranks fourth in the Philippines in terms of total asset size as of end December 2006), trusts (where it ranks fifth in the Philippines in terms of total trust assets under management), treasury operations and foreign exchange, and trade finance and international banking (where it ranks third in the Philippines in terms of trade volume). In addition, the Bank is an established and well recognized provider of banking services to Filipino-Chinese businesses, foreign investors in the export processing zone areas, as well as Japanese multinationals. It has the largest number of export processing zone branches among banks in the Philippines.

Strong group synergies and support

As part of the YGC, the Bank is able to leverage a group-wide sales force to assist it in offering a wide range of products and services provided by other members of YGC, making it a "one-stop" financial center for its customers. At the Bank's branches, customers may be referred to other YGC branches where, trust services, insurance products and stock-brokering services are being offered by other members of YGC.

Proven and experienced management team

The Bank has an experienced management team with a proven ability to execute a business plan and achieve results. In February 2007, the Bank appointed Mr. Lorenzo Tan as Executive Vice Chairman and Chief Executive Officer, who, along with a team of established professionals who have joined him at the Bank, previously headed Sun Life Financial Inc. and led the successful rehabilitation program for Philippine National Bank. Mr. Tan is implementing a number of strategies, including those described in "—Business Strategies" to grow the Bank's business and enhance its profitability.

Extensive and strategically located banking infrastructure and network

The Bank has an extensive and strategically located branch network throughout the Philippines. As of 31 December 2007, the Bank, excluding Government-owned and foreign banks, had the sixth largest branch network in the Philippines, with a nationwide network of 301 branches, including five extension offices nationwide, supplemented by 300 ATMs. In addition, through its Overseas Filipino Banking Group, the Bank has an approximate 9.2% market share in OFW remittances as of 30 September 2007. It is present in 24 countries through a number of centers, tie-ups and agents. It has the largest number of accredited door-to-door delivery couriers in the Philippines. In addition, remittances transacted through Overseas Filipino Banking Group can be collected from any of the 301 branches of the Bank.

Business Strategies

The Bank intends to pursue a number of core business strategies, as follows:

Increase profitability from existing businesses while building a diversified franchise

The Bank intends to implement a number of measures that it considers will either increase revenue derived from its existing businesses or will reduce its existing costs. These include the following:

- Build-up of loan portfolio, with direct emphasis on the less cyclical consumer segment and build-up of the middle market;
- Increase in volumes of low-cost current account and savings account deposits;
- Increase in fee based income from the Bank's corporate, consumer and investment banking businesses, trust banking and bancassurance products;
- Broadening of the Bank's skill base and expertise in financial product development, investment banking, stock brokerage and asset disposal; and
- Build-up of IT capabilities.

In addition to these specific measures, the Bank is also striving to reposition itself in the banking industry by improving its ability to act as a provider of a full range of financial services via a strong capability on a wide range of operational transactions through IT.

BUILD-UP OF LOAN PORTFOLIO, WITH DIRECT EMPHASIS ON THE LESS CYCLICAL CONSUMER SEGMENT AND BUILD-UP OF MIDDLE MARKET

The Bank shall continue to build-up its loan portfolio by actively pursuing opportunities in growth industries and refinancing activities as well as loan syndications in the corporate market. It shall also continue servicing the top tier corporate market in a primary or secondary role. Strong focus will be given to building a strong consumer franchise inclusive of a large consumer credit portfolio. The Bank will increase its relationships in the growing middle market.

INCREASE IN VOLUMES OF LOW-COST CURRENT ACCOUNT AND SAVINGS ACCOUNT DEPOSITS

The Bank aims to increase its middle market customers to 300,000 and target 200,000 customers transacting through electronic channels. ATM based products for retail depositors shall be aggressively offered. The Bank will improve target market identification and sales management process at district and regional levels.

INCREASE IN FEE BASED INCOME FROM THE BANK'S CORPORATE, CONSUMER AND INVESTMENT BANKING BUSINESSES, TRUST BANKING AND BANCASSURANCE PRODUCTS

The Bank's electronic business solutions shall be enhanced to support the customer's requirements by adding more features to the Bank's internet banking platform and ATMs as well as introduce mobile phone banking. Increasing the volume of trust banking business such as retirement funds, institutional and personal trusts will be actively pursued. The Bank's credit card business shall be grown by increasing customer base and focusing on targeted customer segments. It will also improve further credit/portfolio quality thru improved risk management capabilities.

BROADENING OF THE BANK'S SKILL BASE AND EXPERTISE IN FINANCIAL PRODUCT DEVELOPMENT, INVESTMENT BANKING, STOCK BROKERAGE AND ASSET DISPOSAL

The Bank continues to strengthen its employee base by conducting and facilitating internal and external training programs and seminars. The development of technology based tools to help increase employee efficiency is likewise being undertaken.

BUILD-UP OF IT CAPABILITIES

The introduction of new electronic channels, stabilizing core applications and development of Business Intelligence capability shall be the backbone in improving the Bank's IT capabilities.

Further expand the Bank's existing branch network while enhancing the effectiveness of the distribution network through the introduction of more electronic channels

The Bank considers its branch network of 301 branches, including extension offices, representative of a significant infrastructure through which to sell its financial services. While the branch network is currently used mainly to provide traditional banking services, the Bank plans to continue to train and develop its employees to enable them to focus on maximizing revenue through the sale of supplementary financial products, provided by both the Bank and YGC. In particular, the Bank is emphasizing the segregation of functions within branches to allow for greater focus on particular products. The Bank has dubbed its branches *business centers* to highlight the sales nature of its branch network. In order to coordinate this and to increase its efficiency, the Bank intends to continue developing technology that will centralize the coordination and selling efforts of its branch network.

To complement the branches the Bank plans to significantly increase the number of multifunction ATMs in the next three to five years. This will be supplemented by the development of new electronic channels that will serve key needs of clients without going to a branch which shall cover retail and corporate internet banking and mobile phone banking. The utilization of more electronic channels will contribute to reduction of operating costs per customer even as the bank serves a much larger customer base.

Expand focus on providing financial services to the non-resident Filipino market

The Bank shall expand and continue to provide financial products and services to the non-resident Filipino market, with the introduction of products particularly tailored and branded to satisfy their requirements. These products and services include consumer loans, investment services, credit and cash cards, bill payment services, on-line and phone remittance, and money transfer services. The Bank shall continue to expand its network of overseas centers particularly in North America, Europe and Oceania and increase its tie-up partners. The Bank will continue to introduce state of the art technologies to allow for fast and efficient remittance services and to introduce services tailored to the parties receiving the remittances. The Bank considers this market to be a key driver of growth and is striving to increase its existing market presence.

Accelerate disposition of non-performing assets

In addition to increasing revenues and cost management, the Bank also intends to seek ways to reduce its opportunity costs. One key component of the Bank's cost reduction is to continue implementing steps to accelerate the recovery of its NPAs. The Bank intends to continue active disposition of NPAs and will consider and if appropriate, implement the following:

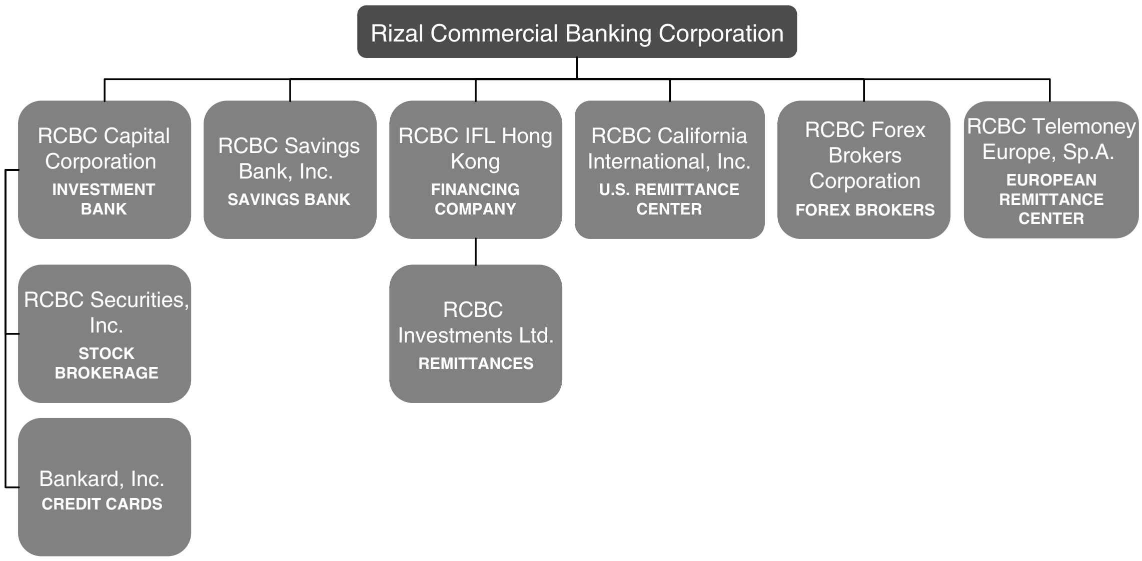
- Intensified measures for collection, foreclosure, restructuring and debt for asset swaps;
- Further strengthening of the Bank's risk management group through prudent control of the credit management process, up-to-date policies, and training of credit officers as a critical effort;
- Enhancement of the Bank's property information database;
- Introduction of a method of systematic enforcement of ownership control of assets;
- Introduction of measures to ensure the cost effective administration of properties; and
- Clearly defining financial exit strategies for certain groups of assets.

Where suitable opportunities arise, seek to pursue a prudent acquisition strategy

The Bank considers the Philippine banking industry to be going through a period of consolidation. As such, it anticipates that there will continue to be opportunities to acquire Filipino banks in the coming years. The Bank will continue to consider acquisition opportunities, particularly focusing on well-managed mid-sized banks and thrift banks which may enable the Bank to increase its resource base and expand its branch network and reach in a cost-efficient manner.

Business Operations

The Bank is a universal bank that offers a wide range of commercial, retail and corporate banking products and services. The principal products and services of the Bank include traditional loan and deposit products, treasury, trust banking, investment banking, cash management and credit card services. These businesses are categorized into six operating groups: Retail Banking, Corporate Banking, Trust and Investments, Financial Markets, Consumer Banking (principally through RSB) and Overseas Remittance.



For financial reporting purposes, the "Financial Markets Group" includes Trust and Investments and the "Others" business segment includes the Overseas Remittance Unit and Consumer Banking (including RSB). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Segment Information".

The following table sets out the consolidated pre-tax and minority interest income of the Bank's divisions and as a percentage of the total net income for the periods indicated:

	For the years ended 31 December						For the nine months ended 30 September			
	2004		2005		2006		2006		2007	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions except percentages)									
Retail Banking	1,007.4	90.9	1,855.0	94.8	1,459.6	58.0	1,102.0	80.9	548.9	18.2
Corporate Banking	157.1	14.2	1,673.1	85.4	1,779.3	70.7	1,089.2	80.0	2,262.0	74.8
Financial Markets(1)	2,151.3	193.9	2,001.0	102.2	3,290.3	130.7	1,441.5	105.8	1,659.4	54.9
Others(2)	(2,207.4)	(199.0)	(3,571.4)	(182.4)	(4,012.9)	(159.4)	(2,270.9)	(166.7)	(1,447.1)	(47.90)
Total income before tax and minority interest	1,108.4	100.0	1,957.7	100.0	2,517.0	100.0	1,361.8	100.0	3,023.2	100.0
Income tax provision	20.6		955.5		626.9		359.2		484.1	
Minority interest in net loss (income)	158.1		256.9		162.2		156.2		(17.0)	
Net income	1,245.9		1,259.0		2,052.6		1,158.8		2,522.1	

Notes:

(1) Includes income of the Trust and Investments Group ("Trust and Investments").

(2) Includes the income / loss of RSB, Bankard and the Overseas Remittance Unit.

In fiscal 2005, the net income of the RBG comprised RSB's net income of ₱186.1 million and Bankard's net loss of ₱422.4 million and represented 6.6% of the net loss from Others. Net income for Trust and Investments amounted to ₱328.3 million. In fiscal 2006, the net income of the RBG comprised RSB's net income of ₱436.1 million and Bankard's net loss of ₱597.6 million and represented 4.0% of the net loss from Others. Net income for Trust and Investments amounted to ₱246.5 million. In 30 September 2007, the net income of the Consumer Banking Group comprised RSB's net income of ₱492.6 million and Bankard's net income of ₱54.9 million. Net income for Trust and Investments amounted to ₱130.6 million.

The relative contribution of the Bank's principal products or services to gross revenues for the periods indicated was as follows:

	For the years ended 31 December						For the nine months ended 30 September			
	2004		2005		2006		2006		2007	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions except percentages)									
Loans	9,306.6	56.6	9,934.5	52.9	9,844.1	48.3	7,052.6	52.2	7,270.1	48.5
Trading and investment securities	2,361.2	14.4	4,591.9	24.5	5,074.8	24.9	3,829.8	28.4	3,693.7	24.6
Trading and foreign exchange	1,263.2	7.6	1,088.1	5.8	2,116.8	10.4	633.6	4.7	1,429.9	9.5
Trust services	355.2	2.2	328.3	1.7	246.5	1.2	207.9	1.5	130.6	0.9
Other treasury / ancillary service(1)	3,165.7	19.2	2,836.4	15.1	3,099.7	15.2	1,776.4	13.2	2,464.4	16.5
Total	16,451.9	100.0	18,779.2	100.0	20,381.9	100.0	13,500.2	100.0	14,988.6	100.0

Notes:

(1) Includes service fees from credit card operations, income on deposits with banks, service fees, penalty charges, dividends and other earnings on equity, gains on sale of ROPA and rental income.

Retail Banking

The RBG operates through branches offering a wide range of products and services. The banking products and services offered by the RBG include deposit and investment products, term loans, revolving credit lines, overdraft facilities, trade finance, payment remittances, and foreign exchange. To attract and retain customers, the RBG has streamlined its product offering from 42 deposit products to five deposit products and began offering more services electronically. Certain deposit products include special features including a tiered interest rate scheme whereby higher rates of interest are paid to deposit balances that exceed certain threshold amounts. The CBG also promotes other YGC products and services through a group-wide referral program.

Corporate Banking

The Bank's CBG accounted for approximately 45.9% of the Bank's loan portfolio and 70.7% of its consolidated pre-tax income in fiscal 2006. The CBG accounted for approximately 54.9% of the Bank's loan portfolio and 77.9% of its consolidated pre-tax income for the nine months ended 30 September 2007.

CBG provides its corporate customers with a wide range of banking products and services, including deposit products, cash management services, revolving credit lines, medium and long-term loans, project finance loans, foreign currency loans, trade related financing, payment remittances and foreign exchange transactions. CBG caters to four customer segments: (i) Large Corporations, which play a major role both the local and global economy, (ii) Japanese Multinationals with strong presence in the country, (iii) Filipino-Chinese businesses, and (iv) SMEs. The Bank also has an established track record of servicing clients in special economic zones.

The Bank views the corporate market to remain a growth area. To further enhance relationships with large corporate clients, assistance in the form of loans have also been offered to key suppliers, distributors, and other business partners of these clients under the Bank's supply chain financing program. Many of CBG's corporate clients are included in the list of the "Philippines' Top 1000 Corporations".

The Bank provides corporate lending and cash management services to Japanese entities that operate in the Philippines, many with whom the Bank has had long standing relationships. The Bank established many of its relationships with Japanese clients through its affiliation with UFJ. The Bank believes that it has established a strong reputation among Japanese entities and that it will continue to be competitive in this sector following UFJ's disposal of the Bank's shares. The Bank has hired two former UFJ executives to manage this sector.

CBG also specializes in providing banking services to clients located in special economic zones, particularly Japanese clients. Special economic zones, or "ecozones", are independent communities within the Philippines that administer their own economic, financial, industrial and tourism development. Companies that operate within ecozones receive certain tax benefits and must meet certain standards of operations. As of 31 December 2007, there were 56 ecozones in the Philippines. The Bank has established branches within certain of the ecozones to better serve its customers.

CBG is also a leading provider of corporate banking services to Filipino-Chinese clients focusing on trade finance to finance import requirements. The Bank believes that its membership in YGC, which includes a number of Filipino-Chinese companies, is an asset in attracting and maintaining Filipino-Chinese customers. This is therefore an area that the Bank will continue maintaining a strong presence in.

The Bank's SME operations were recently consolidated with the CBG from its RBG so that its lending activities can be synchronized with the overall lending thrust and objectives of the Bank. The Bank's SME organization is composed of lending centers in Metro Manila, provincial Luzon, Visayas, and Mindanao and there are ongoing efforts to strengthen the service capabilities of these centers

The short-term credit facilities that CBG provides are principally for working capital. Trade-related credit facilities include foreign and domestic letters of credit and trust receipt lines as well as export advance lines and the discounting of commercial bills. Long-term loans (i.e. those with maturities in excess of one year) are generally in the form of project financing loans. These include loans to finance the construction or acquisition of plant, factories or buildings, the acquisition of equipment, and other capital expenditures.

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

The Bank also offers products from the Financial Markets Group ("FMG") to support its corporate clients' increasingly sophisticated needs through equity, quasi-equity, swaps, options, and other similar funding and hedging products. CBG has successfully assisted clients in accessing long-term capital via public market offerings and other debt and quasi-equity funding structures.

The Bank also offers a cash management system known as a Bills Payment Machine ("BPM") to corporate clients in the utilities industry. BPMs function as fully automated electronic payment facilities whereby the utilities' clients can make payments. As of 31 December 2006 and 30 September 2007, the Bank had 62 and 60 BPMs in service, respectively. Provision of these services has increased fee-based income and also led to an increase in the volume deposits from utility clients who leave such payments in accounts held with the Bank.

Financial Markets Group

The Bank's FMG accounted for approximately 130.8% and 54.9% of the Bank's consolidated pre-tax income for fiscal 2006 and the nine months ended 30 September 2007, respectively.

FMG is comprised of the following principal divisions: the Global Distribution and Advisory Division (the "GDA"); the Foreign Currency Management Division (the "FCMD"); the Fund Management and Domestic Securities Division (the "FMDS"); the Global Markets and Financial Products Division ("the GMFP"); and the Institutional Relationship Management Division ("IRMD"). The following describes the key functions of each of the divisions:

- GDA acts as FMG's marketing arm, and works closely with the other divisions as well as the Bank's Business Managers to market treasury products and services to corporate clients. In fiscal 2006, the GDA serviced approximately ₱15.08 billion of Peso-denominated treasury transactions, including Government securities, Government bonds and Local Government Unit ("LGU") bonds, and approximately U.S.$56.0 million of Dollar-denominated Philippine bonds. GDA serviced approximately ₱30.0 billion of Peso-denominated treasury transactions, and U.S.$100.0 million of Dollar-denominated Philippine bonds as at 30 September 2007. GDA has four satellite offices in Pampanga, Cebu, Davao and Bacolod.
- The FCMD engages in foreign exchange spot, forward and swap transactions. Because the Bank does not have an expanded derivatives license, it is limited in the types of derivative products it can offer. The Foreign Currency Management Division traded total turnover volume of ₱238.0 billion in fiscal 2006 and traded ₱846.8 billion as at 30 September 2007.
- The FMDS operates through two units: the Global and Domestic Liquidity Department, which ensures that the funding requirements of the Bank are met, and the Domestic Fixed Income Department, which trades domestic treasury bills and bonds and domestic corporate bonds.
- The GMFP is comprised of the Financial Engineering Department, which evaluates and recommends structured products, among others, and the Global Fixed Income Department, which trades foreign currency denominated bonds.
- The IRMD is responsible for the correspondent banking business, including expanding liability sources and exploring new trade product structures from its relationships with other financial institutions.

RCBC Capital Corporation ("RCBC Capital") was organized and is operating independently of the principal divisions of FMG. RCBC Capital is the investment banking subsidiary of RCBC. It offers a complete range of investment banking and financial consultancy services which include (i) the underwriting of equity, quasi-equity and debt securities on a firm or best efforts basis for private placement or public distribution; (ii) the syndication of Peso- or foreign currency-denominated loans; and, (iii) financial advisory services.

Investment Portfolio

With low loan demand from creditworthy corporate borrowers in the Philippines in recent years, the Bank generated interest income from low-risk investment opportunities, such as securities issued by the Government. In addition, by holding a substantial portion of its trading and investment securities in Pesos, the Bank has been able to manage its liquidity risk.

Total Investment Portfolio

The following tables sets forth, as of the dates indicated, information relating to the Bank's total investment portfolio.

	For the years ended 31 December											
	2004				2005				2006			
	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss
	(₱ millions)											
Government securities	29,225.2	32,515.1	7.5	5.0	34,340.7	40,418.6	21.9	20.0	43,640.3	43,640.3	2,876.7	—
Other debt securities	2,752.5	2,087.8	—	6.3	7,410.5	7,364.5	15.5	0.6	14,319.6	14,319.6	62.0	106.0
Total debt securities	31,977.7	34,602.9	7.5	11.3	41,751.2	47,783.0	37.4	20.6	57,959.9	57,959.9	2,938.7	106.0
Non-debt securities	759.6	759.6	1.5	—	773.3	773.3	23.9	1.4	946.1	946.1	82.2	—
Total	32,737.3	35,362.5	9.0	11.3	42,524.5	48,556.3	61.3	22.0	58,906.0	58,906.0	3,020.9	106.0

	For the nine-month periods ended 30 September							
	2006				2007			
	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss
	(₱ millions)							
Government securities	40,355.6	40,355.6	1,523.0	—	39,372.2	39,372.2	673.7	—
Other debt securities	13,764.6	13,764.6	51.3	1.7	18,611.1	18,611.1	43.7	179.7
Total debt securities	54,120.2	54,120.2	1,574.3	1.7	57.983.3	57.983.3	717.4	179.7
Non-debt securities	868.8	868.8	71.8	—	1,416.1	1,416.1	—	—
Total	54,989.0	54,989.0	1,646.1	1.7	59,399.4	59,399.4	717.4	179.7

Available for Sale Investments

The following tables set forth, as of the dates indicated, information related to the Bank's investments that were classified as available-for-sale securities.

	For the years ended 31 December											
	2004				2005				2006			
	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss
	(₱ millions)											
Government securities	2,046.0	2,046.0	7.5	5.0	7,544.1	7,544.1	21.9	20.0	38,109.1	38,109.1	2,876.7	—
Other debt securities	383.0	383.0	—	6.3	2,675.0	2,675.0	15.5	0.6	9,009.0	9,009.0	62.0	106.0
Total debt securities	2,429.0	2,429.0	7.5	11.3	10,219.1	10,219.1	37.4	20.6	47,118.1	47,118.1	2,938.7	106.0
Non-debt securities	658.6	658.6	1.5	—	633.8	633.8	23.9	1.4	698.6	698.6	82.0	—
Total	3,087.6	3,087.6	9.0	11.3	10,852.9	10,852.9	61.3	22.0	47,816.7	47,816.7	3,020.7	106.0

	For the nine-month periods ended 30 September							
	2006				2007			
	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss
	(₱ millions)							
Government securities	35,435.7	35,435.7	1,523.0	—	31,794.3	31,794.3	673.7	—
Other debt securities	7,130.6	7,130.6	51.3	1.7	13,122.9	13,122.9	43.7	179.7
Total debt securities	42,566.3	42,566.3	1,574.3	1.7	44,197.2	44,197.2	717.4	179.7
Non-debt securities	705.8	705.8	71.8	—	664.5	664.5	—	—
Total	43,272.1	43,272.1	1,646.1	1.7	45,581.7	45,581.7	717.4	179.7

Held to Maturity Investments—none as of end 2006

The following tables set forth, as of the dates indicated, information related to the Bank's investments that were classified as held to maturity securities.

	For the years ended 31 December											
	2004				2005				2006			
	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss
	(₱ millions)											
Government securities	19,987.0	23,277.0	—	—	22,929.5	29,007.0	—	—	—	—	—	—
Other debt securities	2,337.9	1,673.0	—	—	1,393.7	1,347.0	—	—	—	—	—	—
Total debt securities	22,324.9	24,950.0	—	—	24,323.2	30,354.0	—	—	—	—	—	—
Non-debt securities	—	—	—	—	—	—	—	—	—	—	—	—
Total	22,324.9	24,950.0	—	—	24,323.2	30,354.0	—	—	—	—	—	—

Financial Assets at Fair Value Through Profit or Loss

The following table sets forth, as of the dates indicated, information related to the Bank's financial assets at fair value through profit or loss.

	For the years ended 31 December											
	2004				2005				2006			
	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss
	(₱ millions)											
Government securities	7,192.1	7,192.1	—	—	3,867.1	3,867.1	—	—	5,531.1	5,531.1	—	—
Other debt securities	31.8	31.8	—	—	3,341.9	3,341.9	—	—	5,310.6	5,310.6	—	—
Total debt securities	7,223.9	7,223.9	—	—	7,209.0	7,209.0	—	—	10,841.7	10,841.7	—	—
Non-debt securities	101.0	101.0	—	—	139.5	139.5	—	—	247.3	247.3	—	—
Total	7,324.9	7,324.9	—	—	7,348.5	7,348.5	—	—	11,089.0	11,089.0	—	—

	For the nine-month periods ended 30 September							
	2006				2007			
	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss
	(₱ millions)							
Government securities	4,919.8	4,919.8	—	—	7,578.0	7,578.0	—	—
Other debt securities	6,634.1	6,634.1	—	—	5,488.1	5,488.1	—	—
Total debt securities	11,553.9	11,553.9	—	—	13,066.1	13,066.1	—	—
Non-debt securities	163.0	163.0	—	—	751.6	751.6	—	—
Total	11,716.9	11,716.9	—	—	13,817.7	13,817.7	—	—

Residual Maturity Profile

The following table sets out, as of the dates indicated, an analysis of the residual maturity profile of the Bank's net investment portfolio:

	As of 30 September 2007							
	Up to one year		One to three years		Three to five years		More than five years	
	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
	(₱ millions, except percentages)							
Net investment securities	5,017.2	7.1%	12,305.8	6.5%	11,762.6	6.3%	25,088.3	7.4%

As of 30 September 2007, the Bank did not hold any debt securities of non-Government entities in excess of 10.0% of its capital funds.

The Bank, following guidelines on tainting portfolios under PAS, reclassified its held-to-maturity securities in an amount of ₱29.0 billion to available-for-sale in September 2006.

Trust and Investments

Trust and Investments has an established track record in trust and asset management. As of 30 September 2007, the Bank continued to rank fifth in the Philippines with ₱49.56 billion in trust assets. This figure represents a 16% increase from the trust asset level as of December 31, 2006 and an 18% growth compared to 30 September 2006. Trust, investment management and other fiduciary accounts continued to account for the bulk of the Bank's trust arrangements. These consist of retirement funds, institutional trust funds, pre-need accounts, personal trusts and investment management arrangements, which accounted for 93% and of total trust assets as of 30 September 2007. The balance consists of the volume of pooled funds. The Bank offers its trust products to corporate and institutional investors as well as to high-net individuals and, for funds requiring low minimum thresholds, retail investors.

Previously, the Bank offered various common trust fund ("CTF") products to clients. The Bank's CTF products registered strong growth from 2000 to 2004 primarily due to the products' competitive returns and aggressive selling efforts. In September 2004, the BSP issued directives requiring trust entities to phase out CTFs by 1 October 2006, except for long term tax exempt CTFs which are required to be phased out by 1 October 2009. Trust entities were no longer allowed to accept new CTF investors with effect from 1 January 2005 and were requested to stop accepting additional investments from existing CTF investors effective 1 April 2005. These phase out directives caused CTF volume to decline.

In September 2004, the BSP issued Circular 447, which provided guidelines for the launching and offering of new products to be known as Unit Investment Trust Funds ("UITFs"). UITFs are open-ended pooled trust funds denominated in any acceptable currency that are to be operated and administered by trust entities. Eligible assets of UITFs include bank deposits, securities issued by or guaranteed by the Republic of the Philippines or the BSP, tradable securities issued by the government of a foreign country, exchange listed securities, marketable instruments that are traded in an organized exchange, loans traded in an organized market and such other tradable instruments as the BSP may allow. These funds are subject to mark-to-market valuation on a daily basis. In issuing this circular, the stated objective of the BSP is to align the operation of pooled funds with international best practices and enhance the credibility of pooled funds to investors. To allow CTF investors to transition to UITFs, the Bank launched five UITF products in March 2005. These products include Peso and U.S. dollar denominated money market and fixed income funds as well as a local equity fund. The Bank has made an active effort to promote and educate investors regarding UITFs and increased its UITF volume by 81% from 31 December 2005 to 31 December 2006. Beginning in May 2007, however, UITF volume showed a declining trend from the end-2006 level as a result of the shift in clients' interest to the BSP's Special Deposit Accounts, which were made available to investors through trust institutions. UITF volume as of 30 September 2007 decreased by 22% compared to the end-2006 level despite the attractive returns generated by the RCBC fixed income funds versus competition and/or the prescribed benchmarks.

In accordance with BSP regulations, the Bank is required to deposit government securities with a value equivalent to 1.0% of the book value of the total volume of trust, fiduciary and investment management assets with the BSP as security for the faithful performance of its trust duties. In addition, an amount equal to 10.0% of the CTFs is required to be maintained as statutory reserves and an amount equal to 11.0% is required to be maintained as liquidity reserves. Loans granted by trust accounts to the Bank's directors, officers, stockholders and related interests ("DOSRI") are included in determining the Bank's compliance with the regulatory limits on DOSRI loans. In managing CTFs and UITFs, the combined exposure of the fund in any entity and its related parties shall not exceed 15% of the market value of the fund, except in the case of exchange traded equity securities where the maximum exposure of UITFs is the actual benchmark index weighting of the issue or 15%, whichever is higher. These exposure limits prescribed for CTFs and UITFs do not apply to non-risk assets as defined by the BSP.

Aside from its asset management products, Trust and Investments offers non-fund management services such as mortgage trust indentures, escrows, bond trusteeships and paying agency arrangements for bonds and commercial paper issuances and stock transfer services.

Consumer Banking

The Bank offers its customers a wide range of banking products to consumers. Deposit products offered include current accounts (non-interest bearing demand deposits), savings accounts (including fixed amount savings accounts and savings and overdraft combination accounts) and time deposits in Pesos, U.S. dollars, and certain other foreign currencies. Loan products offered include general purpose personal loans, home mortgage loans, automobile loans, small business or multipurpose loans secured by real property, and credit cards.

The Bank's CBG primarily provides mortgage loans and auto loans through RSB and issues credit cards. The Bank's branches, both commercial and savings, provide promotional materials on consumer loans, credit cards and insurance products.

RCBC Savings Bank

In 1996, RSB was established as the Bank's thrift banking arm and was subsequently bolstered by the acquisition of Capitol Development Bank, a thrift bank, in 1998. RSB is a wholly-owned subsidiary of the Bank and is operated separately and branded differently from the Bank. As of 31 December 2006 and 30 September 2007, RSB had 110 branches, of which 48 were located in Metro Manila, 44 in the Luzon region, 12 in the Visayas region and six in the Mindanao region, through which it takes deposits and offers consumer credit products.

RSB offers its customers a wide variety of deposit products and also offers consumer loan products such as home mortgage loans, auto loans, and personal/salary-deducted loans, which made up approximately 57.9% (₱16.3 billion), 29.5% (₱8.3 billion) and 3.5% (₱985.0 million), respectively, of its total loan portfolio as of 31 December 2006; and 56.6% (₱16.1 billion), 35.1% (₱10.0 billion), and 3.5% (₱993.5 million), respectively, of its total loan portfolio as of 30 September 2007. RSB also provides commercial loans to SMEs and property developers. Loan terms are differentiated according to factors such as the customer's financial condition, age, loan purpose, and amount of collateral with the Bank.

The following table indicates total consumer loans in millions of Pesos as of the dates indicated:

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006	2006	2007
			(₱ millions)		
Home mortgage loans	9,126.3	11,777.4	16,332.9	14,830.5	16,140.9
Auto loans	7,263.1	7,241.2	8,307.4	7,851.9	10,005.1
Commercial loans	2,309.1	1,764.6	1,229.1	1,441.9	845.4
Salary-deducted loans	925.9	961.6	985.0	973.2	993.5
Others[(1)]	585.7	441.5	555.8	499.2	553.4
Total	20,210.1	22,186.3	27,410.2	25,596.7	28,538.3

Notes:

(1) Others includes back-to-back, staff and industrial loans. Industrial loans include loans to manufacturing firms.

The following table indicates the total number of accounts as of the dates indicated:

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006	2006	2007
			(₱ millions)		
Home mortgage loans	11,524	14,073	17,668	16,607	15,290
Auto loans	16,569	16,235	17,853	17,319	19,543
Commercial loans	39	46	124	127	107
Salary-deducted loans	13,919	13,974	11,597	12,086	10,678
Others[(1)]	701	790	789	—	964
Total	42,752	45,118	48,031	46,139	46,582

Notes:

(1) Others includes back-to-back, staff and industrial loans. Industrial loans include loans to manufacturing firms.

RSB's total assets amounted to ₱37.9 billion based on the published statement of condition submitted to the BSP as of 31 December 2006 and ₱38.3 billion based on the published statement of condition submitted to the BSP as of 30 September 2007, making it the fourth largest thrift bank in terms of assets. Likewise, RSB was the third largest thrift bank in terms of deposits and loans as of the same period. In December 2004, the Board of Directors of the Bank approved a contribution of additional capital amounting to ₱500.0 million to RSB to fund expansion of loans. The contribution was completed in January 2005, and another ₱1.0 billion in October 2007.

Total net income for RSB amounted to ₱436.1 million for fiscal 2006 and ₱492.6 million for the first nine months of 2007, accounting for 17.3% and 16.3%, respectively, of the Bank's consolidated pre-tax income.

As of 30 September 2007, RSB's capital adequacy ratio was 11.8%.

Residential Mortgage Loans

Residential mortgage loans to individuals averages at ₱1.5 million and have maturities between five and twenty years. Home mortgage loans are secured by a first mortgage on the property being purchased. Such loans are insured with the Home Guaranty Corporation (the "HGC") and may be called upon if the borrower misses payments for six months or more. Home mortgage loans are typically payable in monthly amortizing payments based on market-linked interest rates with terms of one to five years. The Bank may lend up to 80.0% of the internally-appraised value of house and lots. The Bank requires home mortgage borrowers to obtain both fire insurance and mortgage redemption insurance and will generally refer these customers to the Bank's insurance brokerage.

All RSB home mortgage loans are secured by a first legal charge on the property. In addition, RSB generally requires residential mortgage borrowers to have an equity interest of at least 20.0% of the value of the property, including loans guaranteed by the HGC. As of 30 September 2007, residential mortgage loans guaranteed by the HGC represented 9.4% of RSB's total residential mortgage loans.

Interest rates on RSB's residential mortgage loans range from 8.75% to 11.0%. In accordance with industry practice in the Philippines, interest rates on RSB's residential mortgage loan portfolio are agreed with the relevant borrower at a fixed rate applicable for an initial period of one to five years. Following the expiry of this initial period, the interest rate is reset at a fixed rate applicable for succeeding periods.

When a borrower falls into arrears with its mortgage payments, it can either agree to a voluntary disposal of the property to RSB or RSB may commence foreclosure proceedings. Foreclosure of the property commences when the account becomes 180 days past due. Once mortgaged collateral is foreclosed, RSB classifies such collateral as ROPA and will be managed by the Retail Asset Management Division of RSB. However, the mortgagor continues to have the right to redeem such collateral within a year from the date of foreclosure in return for payment of principal and interest owed plus RSB's out-of-pocket expenses. Sale of mortgaged collateral is generally sold through public auctions. In the case of residential mortgage loans guaranteed by the HGC, RSB does not foreclose on the mortgaged collateral. Instead, RSB files a claim with HGC if an HGC-guaranteed residential mortgage loan is in default for at least six consecutive months. To date, RSB has not yet filed any claim with the HGC.

Auto Loans

RSB also provides auto financing to individuals, mainly for the acquisition of new vehicles, although RSB also finances the acquisition of second-hand vehicles and provides general purpose loans secured by customer's vehicles. As of 30 September 2007, the Bank had ₱9.5 billion in new auto loans and ₱532.9 million in second-hand auto loans. RSB's auto loans are typically between ₱100,000 and ₱600,000 in amount and for terms of between 24 and 36 months on average. The minimum and maximum terms are 12 and 60 months, respectively. The applicable interest rate is generally fixed with an amortizing repayment schedule over the term of the loan. RSB also typically lends up to 80.0% of the value of a new car. For second-hand vehicles, RSB lends up to 70.0% of the appraised value or selling price (whichever is lower) for vehicles between one and two years old, and up to 50%-60% of the appraised value or selling price, (whichever is lower), for vehicles older than two years. The maximum amount varies, depending on the model and year of the car and is based on RSB's internal assessments of the resale value.

RSB's auto loans are generated from car dealerships, independent sales agents, and sourced internally through branch referrals, walk-in clients and refinancings. RSB also provides economic incentives to car dealerships and independent sales agents based on each approved auto loan amount.

All of RSB's auto loans are secured by a first legal charge over the cars being purchased. In addition, RSB generally requires car buyers to make a minimum down payment of between 20.0% and 30.0% of the purchase price. The prevailing effective interest rates of RSB's auto loans range from 10.0% to 14.0% for new cars and 15.0% to 19.0% for second-hand vehicles.

RSB's policy towards foreclosure proceedings on auto loans is more conservative than that typically followed in the Philippine banking industry. RSB commences foreclosure proceedings when an installment payment falls past due for 90 days, as opposed to 121 days for most banks. It generally takes between five to eight months from the past due date to foreclose on the car, which is then sold through a public auction.

Personal and Salary Loans

The Bank offers two products: personal loans and salary loans. Personal loans are offered to prospective customers who apply on an individual basis, while the Bank offers salary loans through the employees' respective companies. As of September 2007, the personal loan portfolio stood at ₱729.6 million while salary loan portfolio stood at ₱263.9 million.

The Bank offers unsecured personal loans in amounts from ₱100,000 to ₱1 million, although the current average is at ₱200,000. Payment is through issuance of post-dated checks. Salary loans, which are only offered to accredited companies, in the other hand, range from ₱20,000 to ₱500,000 with a current average of ₱75,000. Payment is through salary deduction.

Deposit Products

RSB provides its customers with a variety of deposit accounts, including non-interest bearing demand deposits, interest-bearing combination of check book and savings accounts (including savings accounts, checking accounts, time deposits, and premium time deposits) and fixed and floating rate savings accounts. In addition to offering conventional deposit products, RSB offers a variety of special value-added products and services thereby increasing product offerings and providing greater convenience for customers, including products tailored for OFWs and their beneficiaries who remain in the Philippines and U.S. dollar time deposits. RSB has streamlined its roster of deposit products from 47 to 36 product types, including the launch of the *Abot-Pangarap* Savings account and the Philippine Retirement Authority savings account and the enhancement of the savings and checking accounts.

With total deposits of ₱32.3 billion, RSB ranked third in terms of total deposits among other thrift banks based on the Statement of Condition submitted to the BSP as of 30 September 2007. This represented 9.0% of the Bank's consolidated deposits. Total net income of RSB amounted to ₱492.6 million for the nine months ended 30 September 2007 and ₱187.9 million in fiscal 2005 accounting for 19.5% and 11.39%, respectively, of the Bank's consolidated net income.

Credit Card Operations

Until December 2006, the Bank operated its credit card business through Bankard. The Bank holds its 72.7% interest in Bankard through RCBC Capital, a 99.9%-owned subsidiary of the Bank. RCBC Capital acquired Bankard in 2000 and recorded goodwill from the transaction amounting to ₱822.0 million. The Bank amortized such goodwill up until 2004 over a period of 20 years. Following implementation of ₱FRS 3 Business Combinations for fiscal 2005, the Bank subjected such goodwill to a regular impairment test. As a result of such impairment testing, RCBC Capital wrote-off the remaining book value of such goodwill in fiscal 2005.

In December 2006, RCBC acquired substantially all of the assets of Bankard and going forward will conduct credit card operations at the parent company level. Under the terms of the sale, RCBC acquired, among other things, ₱7.2 billion of credit card receivables and certain building units. The consideration for the sale included the assumption of certain liabilities and the set-off of certain debts owed by Bankard. Following the sale, RCBC wrote off ₱2.8 billion of credit card receivables acquired from Bankard against allowances for impairments. Bankard maintained ₱3.2 billion of overdue receivables for which it has made full provision.

Bankard and RCBC entered into a services agreement wherein RCBC outsourced the servicing of its credit card business to Bankard. These services include card acquisition and marketing services, verification and approval services and collection services.

The Bank is engaged in two principal credit card activities: card issuing and merchant acquiring. The Bank derives income from annual fees charged to cardholders, transaction commissions from merchants, fees on cash advances and interest payable on outstanding card receivables, currently at the rate of 3.5% per month and, on penalties for past due accounts, 7.0% per month. Annual cardholder fees range from ₱800 to ₱3,500. The interest rates on deferred and installment payments range from 21.0% to 54.0% per annum. The total amount of cash advance is limited to 30.0% to 50.0% of credit limit. Interchange fees range from 0.5% to 2.3%. Funding for the Bank's credit card operations is provided by a combination of internally generated funds and retained earnings.

Credit Card Issuance

The Bank has been licensed by each of Visa International ("Visa"), Mastercard International Inc., and Japan Credit Bureau to issue credit cards under each respective brand. According to the Credit Card Association of the Philippines' industry report for September 2007, Bankard was the seventh largest credit card company in the Philippines with a market share of approximately 4.9% of the total credit cards in issue and 3.3 % of total billings in the industry as of 30 September 2007.

The Bank's strategic plan focuses on increasing its credit cards in force while continuing to improve the credit quality of its portfolio. Initiatives to improve the quality of its credit card portfolio and to strengthen its credit card policies and procedures include the following:

- Tightening acceptance standards for credit card applications through the implementation of behavioral scoring on top of the credit scoring model with constant and automated monitoring and evaluation of its delinquency profile which was implemented this year;
- Rationalizing direct sales agencies' and agents' commission structure to attract quality applications. Commissions are given only on approved applications instead of on submitted applications with complete documentation;

- Launching a new group synergy program aimed to attract productive leads and less delinquent accounts;
- Systemizing the collection process with the use of collector productivity standards and regular tracking/monitoring of collection effectiveness;
- Institutionalizing the use of credit MIS in monitoring and evaluating loan portfolio performance;
- Streamlining the collection process to focus on delinquencies at their earliest stages.

As a necessary support to credit card issuance, the Bank offers its customers an Interactive Voice Response System, a customer hotline service through a call center operated 24 hours a day each day of the week, on-line statement-of-account viewing and statement fax-on-demand all free of charge.

The following table sets out Bankard's total credit card balance, credit card numbers, revenue, net income, total issuing billings and delinquency rates for the periods indicated:

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006[1]	2006	2007
	(₱ millions, except credit card charge-off rate, credit cards outstanding and delinquency rate, which are in percentages)				
Cardholder fees and commission income	540.0	486.7	439.1	303.4	341.4
Merchant acquirer commissions	95.2	152.9	208.0	182.9	53.7
Net interest income (loss)	1,506.0	1,433.8	1,370.2	1,027.9	949.6
Operating income	475.5	307.5	403.1	324.9	542.9
Provision for loan losses	1,323.3	921.0	978.6	877.3	394.2
Net income (loss)	(577.4)	(422.4)	(597.6)	(571.2)	125.1
Credit card balances[2]	4,663.1	4,451.8	4,367.4	4,376.9	4,001.7
Credit card charge volume[3]	6,422.3	7,039.9	7,521.3	5,506.9	5,945.1
Credit card charge-off rate[4]	4.5	2.3	3.2	1.8	3.4
Credit cards outstanding (in thousands)	325.0	320.6	327.5	335.5	288.6
Delinquency rate[5]	15.2	12.9	11.4	11.2	10.2

Notes: All amounts are based on consolidated Bankard and the credit card business in RCBC's books (based on simple summation of the amounts).

(1) In December 2006, RCBC acquired substantially all of the assets of Bankard. The figures in the above table as of and for the year ended 31 December 2006 include the results of Bankard and the Bank's credit card operations at the parent company level.

(2) Includes credit card loans, which earn interest of between 3.5% and 7.0% (penalty for past due accounts) per month.

(3) Charge volume is equivalent to gross billings of cardholders.

(4) Charge-off rate is equivalent to total write-offs divided by total accounts receivable.

(5) Delinquent balance are those that are overdue for 30 to 179 days. Delinquency rate equals the total delinquent balance divided by total credit card receivables current to 179 days past due.

As of 30 September 2007, total outstanding credit card balances amounted to ₱7.7 billion. The credit card business' net income for the nine months ended 30 September 2007 was ₱125.1 million. The delinquency rate on balances overdue for more than 30 days has dropped from 12.9% in fiscal 2005 to 11.4 % in fiscal 2006 and to 10.2% for the nine months ended 30 September 2007. In August 2003, the BSP issued a circular under which credit card companies were required to move from measuring delinquencies by bucketed aging, which classifies outstanding balances depending on when the balance becomes due, to accelerated aging whereby all the receivables from a single cardholder are aged based on the longest dated overdue charge, even if there are other charges for such account which may not be overdue.

Bankard credit cards are sold by agents in direct sales, through marketing in direct mailings, magazines, newspaper inserts and other solicitations, and through the RCBC and RSB branch network and other YGC companies.

Merchant Acquiring

The Bank has relationships with approximately 500 merchants, 100 of which provide more than 80.0% of its total credit card billings. From April 2004, the Bank shifted its focus to concentrate resources on its larger and more profitable customers and scaled down its number of merchant customers, from approximately 30,000 in 2002 to approximately 500 as of 30 September 2007. As a result of this rationalization and other procedural improvements, the Bank's credit card operations unit reduced its headcount and has since closed three provincial service centers.

For fiscal 2006, the Bank's net merchant discount in respect of merchant acquiring was ₱208 million, or 18.4% of its total fee income. This included merchant discounts from the internet acquiring business which was discontinued in November 2006.

Overseas Remittance Group

TeleMoney, the Bank's core remittance business, is a leading provider of international remittance service in terms of volume. Prior to fiscal 2004, the Bank's remittance operations were part of its Commercial Banking Group. Recognizing that remittance products and services have become more important to the Bank's operations, the Bank transformed its remittance operations into an independent business group in fiscal 2004. The Bank provides remittance services to the wide network of OFWs and their beneficiaries in the Philippines who receive the remittances. In 2005 the BSP named TeleMoney an *Outstanding Commercial Bank Reporter of OFW Remittances*.

As of 30 September 2007, TeleMoney had expanded to more than 24 countries through its subsidiaries as well as numerous centers, tie-ups and agents. TeleMoney offers a broad range of value-added products and services such as *Tele-Credit* (credit to accounts), *Tele-Remit* (cash pick-up anywhere), *Tele-Cash Card* (re-loadable prepaid card), *Tele-Pay* (bills payment facility) and *Tele-D2D* (door-to-door delivery at beneficiary's address). As with its deposit products, the Bank rationalized the scope of remittance products and services it offered to concentrate on a smaller number of core products and services.

In 2004 TeleMoney introduced re-loadable *Tele-Cash Card* and *TeleMoney Direct*, the first internet-based remittance service in the Philippines which allows the remitting party to transfer funds instantly in a secured environment via "Verified by Visa" credit card. In 2005, TeleMoney introduced *Tele-Remit* with a "pay anywhere" feature and the free text notification service for all TeleMoney products. In 2006, Tele-Remit was made available in 400 outlets of the Cebuana Lhuillier Pawnshop which allowed its products to be available during non-banking hours. In fiscal years 2005 and 2006 and the nine months ended 30 September 2007, the Bank received total inward remittances of U.S.$1.0 billion, U.S.$1.2 billion and U.S.$ 1.0 billion, respectively. The Bank has maintained its estimated 9.2% share of the total OFW remittance market in the Philippines for fiscal 2007 as at 30 September 2007 based on volumes published by the BSP. TeleMoney's primary sources of income are foreign exchange gains made when foreign currencies are converted into Pesos and commission and fees.

The Bank processed approximately 1.8 million transactions for fiscal years 2005 and 2006, and 1.4 million transactions for the nine months ended 30 September 2007. Fee income from the Bank's remittance business accounted for ₱180.0 million or 14.2% of the Bank's consolidated non-interest income in the nine months ended 30 September 2007.

The Bank offers remittance services in over 24 countries, including Saudi Arabia, the United Arab Emirates, the United States, Italy and Hongkong. Its foreign remittance operations are primarily conducted through subsidiaries and tie-up agreements with local banks and exchanges or money transfer agents. Tie-ups are typically entered into in jurisdictions wherein the Bank cannot establish its own subsidiaries or deploy direct agents. These agreements govern, among other things, fee sharing arrangements and service commitments. The majority of the agreements do not include exclusivity obligations by either party. The Bank's foreign subsidiaries, namely RCBC North America, RCBC Telemoney Europe, RCBC IFL and RCBC Investments operate largely as foreign exchange remittance offices.

The Bank has targeted its remittance operations as one of its key drivers of growth. As part of its strategy to expand its remittance business, the Bank plans to expand the scope of the jurisdictions in which it offers its products and services and started offering its services to non-Filipino overseas workers.

Branch Banking

As of 31 December 2007 the Bank had a total of 296 branches excluding five extension offices, of which 186 belonged to the Bank (excluding five extension offices) and the remaining 110 to RSB. As of such date the Bank had a total of 300 ATMs, of which 228 belonged to the Bank and the remaining 72 to RSB. Each of the Bank's and RSB's branches is connected and networked to the Bank's IT systems and infrastructure located in the Bank's head office. The Bank plans to expand its branch network through the opening of new branches and the acquisition of small- to medium-sized banks with networks that will complement RCBC's existing network.

The Bank has endeavored to transform the branches into effective sales and service channels that will focus on low-cost deposits generation, acquisition of retail customers, and referral of bank and other YGC products. Alternative development channels will be developed to migrate customer transactions from the counter, thereby freeing up branch personnel to concentrate on selling and more value-adding activities. In the medium-term, the Bank expects to boost other income by offering more fee-based services. The following table sets out details of the Bank's branches (excluding RSB) in the Philippines in operation as of the specified dates (not including extension offices):

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006(1)	2006	2007
Metro Manila (incl. Cainta and Taytay)	66	67	67	67	67
Luzon	53	53	53	53	54
Visayas	31	31	31	31	33
Mindanao	28	28	28	28	28
Total	178	179	179	179	182
ATMs	179	189	203	202	225

* *This does not include five extension offices distributed as follows: one in Metro Manila, two in Luzon, one in the Visayas and one in Mindanao*

The following table sets out the details of RSB's branches in operation as of the specified dates:

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006(1)	2006	2007
Metro Manila	48	48	48	48	48
Luzon	44	44	44	44	44
Visayas	12	12	12	12	12
Mindanao	6	6	6	6	6
Total	110	110	110	110	110
ATMs	32	42	55	55	64

The Bank provides 24-hour banking services through its ATM facilities, which are located in various branches and at off-site locations, such as client sites to render payroll service, and shopping malls. Customers are given access to the ATM facilities through ATM cards, which are issued to checking and savings account holders. The Bank is a member of the Bancnet ATM consortium, which allows its customers to use the ATMs of other banks in the Philippines and similarly allows other banks' customers to use the Bank's ATM network.

Customer service is further improved through tight management and close monitoring of each branch. The RBG manages the branch network of the Bank, while RSB monitors its branches. The Bank's management information system monitors each branch's profitability, and each branch accounts for its own expenses and revenues. Branch managers, through their respective area and region heads, regularly communicate with the head of the RBG to discuss branch performance. In addition, each branch is subject to monitoring by the Bank's Anti-Money Laundering Act Committee and an annual operations review by the Bank's Compliance Division as well as a comprehensive audit every 18 to 24 months.

Each of the Bank's branches has electronic security systems and armed guards, provided by independent contractors. The Bank also ensures that the amount of cash held in the vaults of its branches is maintained within authorized limits.

Alternative Delivery Channels

Branch Delivery System

The Bank has implemented its online teller system in all of its branches. The Billing Delivery System ("BDS") allows the tellers to process transactions using a browser-based facility. This augments the use of the Bank's internet channel to facilitate multiple payment methods, including manager's checks, direct deposit to accounts as well as retail payments through commercial checks. Features of the BDS include a signature verification system, paperless transaction processing, and electronic data transmission from tellers to merchants or clients.

Internet Banking

The Bank re-launched the retail internet banking service in October 2007 called *myRCBC Internet Banking*. *myRCBC Internet Banking* is an internet-based channel for RCBC's retail customers and can be used by any RCBC customer who has a current or savings account.

The myRCBC Internet Banking was designed to complement the traditional over-the-counter and ATM channels. Further to this, the Bank has embarked on a project to further upgrade the internet banking system.

To further expand the alternative electronic channels, the Bank is also in the process of developing mobile banking services. At present, cardholders can use the Bancnet Mobile Banking facility but the proprietary system will still be developed.

Enterprise Banking

The Bank offers cash management products and services including an internet-based cash management system known as the RCBC Enterprise Banking Solutions ("EBS"). EBS provides commercial and corporate customers with more efficient management of their cash flows by giving them access to information on their deposits, loans and trade finance through the internet. In addition to desktop banking, the services provided assist customers with payroll, collections and disbursements. As of 30 November 2007, approximately 832 corporate accounts of RBG and CBG were connected to EBS, a majority of which were accounts of Japanese and other international customers.

In October 2007, the Rizal Enterprise Checking Account ("RECA") was launched to compliment the electronic banking products and solutions. RECA aims to automate the disbursement processes of companies (including SME and large corporations) by providing them with free accounts payable software each time they open an account. This allows them to reconcile payment details, and to automate the process of check printing until its eventual release.

Call Center

In October 2003, the Bank established a 24-hour call center, which handles inbound inquiries for current and savings accounts, bank's products and services information, as well as ATM, remittance and stock transfer services offered by the Bank. The RCBC Contact Center does not handle credit card products and services, which are handled by Bankard call center.

Operations

The Operations Group ("Operations") is responsible for managing all of the Bank's back-office processing functions. As of 30 September 2007, there were 1,301 employees under Operations reporting to three divisions and three departments under the Operations Group Head. One division is responsible for customer service in branches and supervises the tellers and the tellers' respective supervisors). This division comprises majority of the employees due to the number of branches. However, in response to a new strategy, in October 2007, the branches' customer service function was transferred from Operations Group to the RBG. After the transfer, Operations is now composed of the two divisions and three departments responsible for centralized backroom operations/processing for Trade (Import & Export), Loans, Treasury, Stock Transfer, Settlements (Fund Transfers), TeleMoney (remittances from OFWs), Check Clearing, Central Posting, Remittances, ATMs, Credits Investigations/Credit Appraisals, Contact Center, and System Support.

Marketing

The Bank operates a separate product development and marketing division that is responsible for the overall marketing strategies, product conceptualization and management of deposit-related products and services. Under the supervision of the RBG, the Channel Management and Product Development Division also handles the electronic banking solutions for the Bank's customers. Marketing campaigns are likewise initiated by this team.

The Bank centered on the promotion of cash management, deposit development and consumer lending as key components of its fiscal 2007 marketing campaign. The Bank's marketing efforts involve both providing internal incentives and external promotions.

For its publicity campaigns, the Bank has its own Corporate Communications office, that also uses an internal YGC advertising agency. The Corporate Communications office handles the over-all branding strategy of the Bank.

Information Technology Group

The Bank's Information Technology Group ("ITG") is responsible for the proper and efficient functioning of the Bank's IT systems and infrastructure. As of 31 December 2007, ITG had 137 employees. ITG manages the Bank's ATM network composed of 300 ATMs and oversees the Bank's system and office automation software, hardware and network facilities. Currently, the Bank's uses Fidelity's (formerly Alltel) Systematics to process its deposit systems, and, its ATM network uses ACI's Base/24 running on a Tandem. The Bank's IT infrastructure is centralized group-wide, with the exception of some Bank's subsidiaries, including RSB and the Bank's international operations.

The Bank continues to invest heavily in IT. It aims to become a leaner organization that is more cost efficient and service- and customer-oriented. The Bank's three year plan for 2007 to 2009 has focused thus far on the following strategies:

- Integrate the IT services of the Group to increase efficiency and reduce costs;
- Develop mobile applications to achieve a niche leadership in the Philippine banking industry in strategic communications infrastructure;
- Strengthen relationships with corporate clients by providing fast and easy access to key information, such as data on payrolls, supplier payments and trade payment, through interfaces to the customer's automated systems;
- Increase system availability and performance to strengthen customer goodwill; and
- Upgrade core banking applications, including deposit, lending, trade finance technologies.

Service-Oriented Technology

The core objective of the Bank's IT program is to use technology to transform present business and operating models to being more adaptive, agile and customer-centric, improve the Bank's service to its clients by offering internet banking and electronic payment services and using technology to capture customer information and to train the Bank's employees.

The introduction of software packages for the Bank's IDCs has facilitated the conversion of all former branch offices into branches or sales outlets. IDCs refer to the bank's expansion of its network from branches to wider-reaching electronic based delivery channels. IDCs have been integrated into a common platform that facilitates access between the Bank and its corporate customers. The Bank intends to invest further in the IDCs in order to provide customers with fast over-the-counter services and access to their accounts through a wide range of electronic delivery channels. All of the Bank's branches are connected to its core banking system.

In 2000, the Bank implemented its Enterprise Banking Program, which allows its corporate clients to use internet banking to perform a variety of functions, including funds transfer, supplier payments and payroll processing. The Bank also provides (i) a branch delivery system, which handles all financial transaction; (ii) platform banking, which handles non-financial transactions such as client information and demographics; (iii) phone banking; and (iv) retail internet banking, through its IDC platform.

In 2001, the Bank acquired new data warehousing and customer information systems to provide a flexible database and allow the Bank's managers to obtain better information on product, business unit, and client profitability.

The Bank's objectives for its IT program include using investments in technology to improve training and service to its clients. The Bank has implemented e-learning, a computer-based training system available on its intranet for its associates and it aims to eventually have all of its training programs available on the Bank's intranet to standardize associate training and reduce provision costs.

Productivity-Oriented Technology

The Bank's IT program is also focused on using technology to achieve greater productivity in the Bank's businesses allowing the Bank to have faster access to information used for decision making, efficient and secure storage, access and retrieval of company data, and end-user computing at fingertips. The Bank believes its IT investments have led and will lead to greater efficiency among its business divisions as they increase the volume of transactions processed at a diminishing cost per transaction. The Bank intends to continue to invest in these application systems and plans to match competition in terms of product and service features and availability.

Investments in technology augmented by process improvements through ongoing business process reviews have resulted in rightsizing the organization. Manpower movements resulting from the above initiatives have allowed the Bank to redirect people to specific strategic areas of the business such as sales and relationship management.

Security

The Bank is dedicated to ensuring security in its IT systems. The Bank maintains a storage area in an off-site location to store vital records of the Bank. In addition, the ITG maintains information security policies that follow industry standards, such as implementing firewalls, anti-virus measures and user-defined access controls, and periodically hires consultants to test these security measures.

Insurance

The Bank's policy is to adequately insure all of its properties against fire and other usual risks. The Bank also maintains insurance for operational risks such as the loss of cash or securities through loss or theft and obtains assistance in obtaining appropriate policies and recommendations from Malayan Insurance Company Inc. ("Malayan Insurance"), a member of YGC. The Bank also has a policy of requiring appropriate insurance coverage based on the market value of collateral provided by its customers. The Bank'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.

Intellectual Property

The Bank has not registered any of its intellectual property rights in the Intellectual Property Office at the Department of Trade and Industry of the Philippines. 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 arising in the ordinary course, either individually or in the aggregate, are expected to have a material adverse effect on the Bank or its consolidated financial condition.

The Bank, together with a number of other banks in the Philippines, was assessed by the BIR for DST in connection with its special savings accounts. The BIR claimed that such accounts are equivalent to "certificates of deposit" for tax purposes and as such are subject to DST under Section 180 of the Philippine Tax Code. The BIR had assessed basic tax liabilities in respect of the Bank in an amount of approximately ₱500.0 million, including surcharges, penalties and interest thereon at 20.0% per annum, in respect of DST payable over the past five years. In December 2006, the Bank availed of the One-time Administrative Abatement Program of the BIR under Revenue Regulations No. 15-2006, which provides for the abatement of all penalties, including surcharges and interest on delinquent accounts or assessments, including those subject to ongoing disputes. Pursuant to the program, the Bank paid the basic tax due of ₱402.1 million. Such payment, and the waiver of the relevant surcharges and interest, is subject to final BIR approval. As of 31 December 2007, the BIR has approved the abatement of ₱321.68 million in basic taxes due as DST for the special savings accounts. Only the abatement of the amount of ₱41.99 million (this amount is for special savings accounts only and does not include the ₱38.42 million pertaining to the 10% offshore tax on FCDU for 1994 and 1995 still pending with the BIR) is still pending with the BIR.

Over the past two years, the BIR has sent the Bank, as well as other banks, a series of demand letters for the payment of deficiency GRT and DST on certain accounts of the Bank's FCDU. The BIR's assessment of the deficiency GRT and DST of the FCDU was based on the deletion of the phrase "shall be exempt from all taxes" in Section 24, now Sections 27 and 28 of the Philippine Tax Code. The Bank however reiterated that the removal of the exemptions from GRT and DST was not contemplated under the CTRP and that the deletion of that phrase from the legislation is only the result of inaccurate drafting of the amendment of the tax provisions applicable to

FCDUs rather than of legislative intent. While the Bank believes that it has a valid defense, if these proceedings are decided in favor of the BIR, the Bank's taxation charge may likewise be increased materially. In any case, the Bank has also availed of abatement, approval of which is pending with the Office of the Commissioner of Internal Revenue.

In June 2003, RCBC Capital, a wholly-owned subsidiary of the Bank, filed an arbitration claim with the International Chamber of Commerce against Equitable PCI Bank ("Equitable") relating to RCBC Capital's acquisition of Bankard shares from Equitable in May 2000 for a purchase price of approximately ₱1.8 billion. The claim was based on alleged deficiencies in Bankard's accounting practices and non-disclosure of material facts in relation to the acquisition. RCBC Capital sought a rescission of the sale or damages of approximately ₱1.0 billion, including interest and expenses. The arbitration hearings were held before the ICC Arbitral Tribunal ("Tribunal"), being the body organized by the International Chamber of Commerce. In September 2007, the Tribunal ruled that RCBC Capital was entitled to damages from Equitable arising from the breach, the amount of which would be determined by an expert recently appointed by the Tribunal. In May 2006, RCBC Capital filed a civil case against SGV for damages of over ₱560.0 million. This civil suit alleges that SGV's audit reports in respect of Bankard for the fiscal years commencing in 1997 and ending in 1999, on which RCBC Capital relied when it purchased Bankard in May 2000 for approximately ₱1.8 billion, were not prepared in accordance with Philippine accounting principles that were applicable at the time. The civil case remains pending with the Regional Trial Court of Makati City.

Involvement of the Company or its Directors and Officers in Certain Legal Proceedings

To the knowledge and/or information of the Bank, the present members of the Board of Directors and the Bank's executive officers are not involved, and during the last five years have not been involved, in any criminal, bankruptcy or insolvency investigation or proceedings adversely affecting or involving themselves and/or their property before any court of law or administrative body in the Philippines or elsewhere. To the knowledge and/or information of the Bank, such persons have not been convicted by final judgment of any offence punishable by the laws of the Philippines or of the laws of any other country.

RELATED PARTY TRANSACTIONS

Certain Related Party Transactions

The Company is a member of the YGC. As of the date of this Offering Circular, the YGC held approximately 52.8% of the issued and outstanding share capital of the Bank.

The Bank and its subsidiaries, in their ordinary course of business, engage in transactions with the YGC and its subsidiaries. The Bank's policy with respect to related-party transactions is to ensure that these transactions are entered into on terms comparable to those available from unrelated third parties.

Certain of the Bank's major related-party transactions are described below.

- Angara Abello Concepcion Regala & Cruz Law Office ("ACCRA") is among the firms engaged by the Bank to provide various legal services. The Bank's Director Teodoro Dy-Liaco Regala is a senior partner of ACCRA. During fiscal 2006, the Bank paid ACCRA legal fees that the Bank believes to be reasonable for the services provided.
- The Bank has entered into lease contracts as lessor with Great Pacific Life Assurance Corporation ("Grepalife"), Malayan Insurance and PPI with respect to certain office spaces. As lessee, the Bank has existing lease contracts with GPL for the lease of its Buendia Avenue, Makati City and Fuente Osmeña branch offices. The Bank's Director Ambassador Alfonso T. Yuchengco is a director of GPL and the Honorary Chairman of Malayan Insurance. The Bank's Director Ms. Helen Y. Dee and the Bank's executive officers Messrs. Rizalino S. Navarro, Cesar E. A. Virata and the Bank's Director Mr. Teodoro D. Regala, Sr. are also directors of Malayan Insurance. The Bank's Director, Mr. Navarro, is a member of the board of directors of GPL. Mr. Navarro and the Bank's Independent Director Mr. Teodoro Q. Peña are members of the board of directors of PPI.
- The Bank is a lessee of RCBC Realty Corporation ("RCBC Realty") of which it indirectly owns 29.4% through its equity holdings in RCBC Land, Inc. ("RCBC Land"). RCBC Land, of which the Bank owns 49.0%, owns 60.0% of RCBC Realty. RCBC Realty is the owner and developer of the RCBC Plaza Building complex in which the Bank's head office is located.
- The Bank entered into a Memorandum of Agreement with House of Investments, Inc. ("HI"), a member of the YGC, for the procurement of outsourcing services. Under the agreement, HI is the Bank's sole representative in negotiating the terms of the contracts with selected suppliers or service providers for the procurement of certain outsourcing services, primarily IT related services. The agreement stipulated that HI would not charge fees for its service except for its share in the savings generated from suppliers and service providers. Moreover, HI is obligated to ensure that the contracts they initiate do not prejudice the Bank in any way and that the Bank does not pay more than the cost of buying the items without aggregation.
- In December 2006, Bankard and RCBC entered into a services agreement wherein RCBC outsourced the servicing of the credit card business to Bankard. These services include card acquisition and marketing services, verification and approval services and collection services. Transactions under the agreement are carried out on a "cost plus" basis whereby Bankard receives a premium above the costs that it expends to conduct its services.

The Bank's other transactions with affiliates include leasing office premises to subsidiaries, the availment of computer services of an affiliate and regular banking transactions (including purchases and sales of trading account securities, securing insurance coverage on loans and property risks and intercompany advances), all of which are at arms' length and conducted in the ordinary course of business.

DOSRI Loans and Deposits

In the ordinary course of business, the Bank provides loans to investees and to certain DOSRI. All such loans are on commercial, arm's length terms. The General Banking Law of the Philippines and BSP regulations limit the aggregate amount of loans to DOSRI to 15.0% of a bank's total loan portfolio or 100.0% of a bank's net worth, whichever is lower. In addition, under existing regulations, the amount of individual loans to DOSRI, of which 70.0% must be secured, may not exceed the aggregate amount of their deposits with a bank and book value of their investments in such bank. The Bank is required to report the level of DOSRI loans to the BSP on a weekly basis. DOSRI loans accounted for approximately 11.9% and 9.2% of the Bank's loan portfolio as of 30 September 2006 and 30 September 2007, respectively. As 30 September 2006 and 30 September 2007, there were ₱12.6 billion and ₱10.2 billon of DOSRI loans outstanding.

The Board of Directors of the Bank has the sole authority to approve loans to DOSRI.

The following table shows information relating to the DOSRI loans as of the dates indicated:

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006	2006	2007
	(₱ millions, except percentages)				
Total outstanding DOSRI loans	13,624.0	13,473.0	10,143.8	12,608.9	10,233.0
Percent of DOSRI loans to total loans	13.6%	16.9%	9.6%	11.93%	9.23%
Percent of unsecured DOSRI loans to total DOSRI loans	2.9%	4.4%	2.9%	3.05%	1.91%

Deposit liabilities to affiliates and other related parties amounted to ₱1.1 billion, ₱420.4 million and ₱467.7 million for fiscal 2004, 2005 and 2006, respectively. Related interest expense amounted to ₱5.3 million for fiscal 2004, ₱20.2 million for fiscal 2005 and ₱5.2 million for fiscal 2006.

Subsidiaries and Affiliates

Universal banks in the Philippines, such as the Bank, may invest in the equity of banking related companies or "allied undertakings". Financial allied undertakings include leasing companies, banks, investment houses, financing companies, credit card companies and financial institutions catering to SMEs.

A publicly-listed universal or commercial bank in the Philippines may own 100.0% of the voting stock of only one other commercial bank. Such universal or commercial bank may only have ownership in additional commercial banks as a minority shareholder. A universal bank may also own up to 100.0% of the voting stock of thrift banks and rural banks, and generally up to 100.0% of other financial and non-financial allied undertakings. Prior Monetary Board approval is required for investments in allied and non-allied undertakings.

The total investments in equities of allied and non-allied enterprises shall not exceed 50.0% of the net worth of the Bank, subject to the further requirement that the equity investment in one enterprise shall not exceed 25.0% of the net worth of the Bank.

The Bank's subsidiaries and investments in allied undertakings are as follows:

Bankard Inc.

Bankard, a 59.3%-owned subsidiary of RCBC Capital, was acquired from Equitable PCI Bank in 2000. Until December 2006, the Bank conducted its credit card operations through Bankard. Bankard continues to provide certain card services to the Bank. In the nine months ended 30 September 2007, Bankard's net income amounted to ₱54.9 million. Bankard's net loss for fiscal 2006 amounted to ₱597.6 million. See "—Business, Credit Card Operations".

The Bank made an additional ₱1.0 billion capital contribution to Bankard through a debt for equity swap. The equity has been credited as deposit for future subscription by Bankard. Bankard has applied to increase its share capital, with such increase being subject to Philippine SEC approval. Following the receipt of such approval, the Bank will receive shares of Bankard and Bankard will become a direct subsidiary of the Bank.

RCBC Savings Bank, Inc.

RSB, a wholly-owned subsidiary of the Bank, was established in 1996 as the Bank's consumer banking arm. RSB provides deposit products, real estate loans, auto loans and personal loans. In fiscal 2006, RSB's net income was ₱436.1 million. This figure was ₱492.6 million for the first nine months of 2007.

RCBC Capital Corporation

RCBC Capital, a 99.9% owned subsidiary, was established in 1974. RCBC Capital Corporation is the investment banking subsidiary of RCBC. It offers a complete range of investment banking and financial consultancy services which include (i) the underwriting of equity, quasi-equity and debt securities on a firm or best efforts basis for private placement or public distribution; (ii) the syndication of foreign currency or peso loans; and, (iii) financial advisory services. In fiscal 2006, RCBC Capital's non-consolidated net income was ₱293.3 million, as at 30 September 2007, this was ₱202.1 million.

RCBC Forex Brokers Corporation

RCBC Forex Brokers Corporation ("RCBC Forex"), a wholly-owned subsidiary of the Bank, was incorporated in 1998. RCBC Forex is engaged in dealing and brokering currencies in foreign exchange contracts with local and international clients. For fiscal 2006 and the first nine months of the year, RCBC Forex's net income was ₱43.0 million and ₱52.1 million, respectively.

RCBC North America, Inc. (formerly RCBC California International, Inc.)

RCBC North America a wholly-owned subsidiary of the Bank, was established in 1991 as the Bank's foreign exchange remittance office in California. In fiscal 2006, RCBC California's net income was U.S.$428.0 thousand, while for the first nine months of 2007, this was U.S.$239.9 thousand.

RCBC TeleMoney Europe S.p.a.

RCBC TeleMoney Europe, a wholly-owned subsidiary of the Bank, was established in 1995 in Rome, Italy to engage in the remittance business. In fiscal 2006, RCBC TeleMoney Europe registered net income of Euro162.3 thousand. For the nine-month period ended 30 September 2007, net income was at Euro77.4 thousand.

RCBC International Finance Limited

RCBC IFL, a 99.99% owned subsidiary of the Bank, was established in 1979 and is the Bank's overseas branch in Hong Kong. RCBC IFL is primarily engaged in the remittance business. In fiscal 2006, RCBC IFL's net income was HK dollars ("H.K.$")2.2 million, and for the nine-month period ended 30 September 2007, RCBC IFL's net income was H.K.$345.2 million.

RCBC Securities, Inc. ("RCBC Securities")

RCBC Securities, a wholly-owned subsidiary of RCBC Capital, is engaged in the electronic and traditional trading of listed securities and in providing corporate and market research.

RCBC Land, Inc.

RCBC Land, a joint venture of the Bank and Pan Malayan, was established in 1997. The Bank currently has a 49.0% stake in RCBC Land, which is engaged in housing ventures, homebuilding and development, landbanking, subdivision development and joint ventures with home developers. RCBC Land is not a consolidated subsidiary of the Bank. In fiscal 2006, RCBC Land had net loss of ₱720.6 million. As at 30 September 2007, this figure was at ₱189.9 million net income.

RCBC Realty Corporation

RCBC Realty, a 60.0% owned subsidiary of RCBC Land, is a joint venture between RCBC Land and the Government of Singapore Investment Corporation. RCBC Realty owns RCBC Plaza where the Bank's head office is located. RCBC Realty is primarily engaged in managing and developing real estate infrastructure products, including the Bank's corporate headquarters.

New Pacific Resources Management (SPC-AMC), Inc.

NPRMI, a wholly owned subsidiary of the Bank, was incorporated in the Philippines in 2004 under the SPV Act for the purpose of facilitating the sale of the bank's NPLs and ROPA. As of 31 December 2006 it did not hold any NPLs. In fiscal 2006, NPRMI had net income of ₱328.7 thousand. The Bank sold 95% of its shares to a third party in 2007.

MANAGEMENT AND EMPLOYEES

Board of Directors

In January 2007, the Bank's Board of Directors approved the retirements of Messrs. Rizalino S. Navarro and Cesar E. A. Virata from their executive duties effective 31 December 2006 in the case of Mr. Virata and 5 January 2007 in the case of Mr. Navarro. Both will continue to serve as Directors. Ms. Helen Y. Dee concurrently served as Executive Vice Chairman and Chief Executive Officer from 5 January 2007 to 31 January 2007. In February 2007, Mr. Lorenzo V. Tan served as Executive Vice Chairman and Chief Executive Officer. From 1 April 2007, Mr. Tan serves as President and Chief Executive Officer.

The names, ages and positions of the Bank's Board of Directors are as follows:

Ambassador Alfonso T. Yuchengco, 84, is the Bank's Honorary Chairman. He is also Chairman and Chief Executive Officer of the Bank's major stockholder, Pan Malayan and the Honorary Chairman of the Board of MICO Equities, Inc. (the holding company of the Malayan Group of Insurance Companies) ("MICO Equities") and other YGC companies. Ambassador Yuchengco is presently the Presidential Adviser on Foreign Affairs, which holds a cabinet rank. He has served as Philippine Ambassador to the People's Republic of China, Ambassador Extraordinary Plenipotentiary of the Philippines to Japan, and Presidential Special Envoy to Greater China, Japan and Korea. He also served as the Philippines' Permanent Representative to the United Nations with the rank of Ambassador from 2001 to 2002. He was the first recipient of the Order of Lakandula with the rank of Bayani (Grand Cross) presented by President Gloria Macapagal-Arroyo. Ambassador Yuchengco was the first Asian to be elected to the *Insurance Hall of Fame* by the International Insurance Society, Inc. He graduated from Far Eastern University with a Bachelor of Science degree in Commerce and completed his graduate studies at Columbia University, New York, USA. He holds several Honorary Doctorate Degrees from universities in the Philippines, Japan and the United States.

Ms. Helen Y. Dee, 63, is the Bank's Chairperson. Mrs. Dee is also the Chairperson and President of Hydee Management & Resource Corporation and HI. She is also the Chairperson of Landev Corporation, Hi-Eisai Pharmaceutical Inc., Mapua Information Technology Center, Inc. and Manila Memorial Park. She is the Vice Chairperson of Pan Malayan. She holds directorship positions in Philippine Long Distance Telephone Company, Petro Energy Resources Corp., Great Life Financial Assurance Corporation (formerly Nippon Life Insurance Co. of the Phils.), Malayan Insurance and MICO Equities. Mrs. Dee is a Trustee of the Mapua Institute of Technology. She graduated from Assumption College with a Bachelor of Science degree in Commerce and completed her Masters in Business Administration at De La Salle University.

Mr. Lorenzo V. Tan, 46, is the Bank's President and Chief Executive Officer. He is also an Independent Director of Smart Communications, Inc. Before joining the Bank, Mr. Tan was the President and Chief Executive Officer of Sun Life of Canada (Phils.), Inc., President and Chief Executive Officer of Philippine National Bank, President and Chief Operating Officer of United Coconut Planters Bank, and Group Managing Director of Guoco Holdings (Phils.), Inc. He also held various positions in Citibank N.A. from 1987 to 1995. He graduated from De La Salle University with a Bachelor of Science degree in Commerce. He earned his Master of Management degree from the J.L. Kellog Graduate School of Management in Evanston, Illinois, USA. He is a Certified Public Accountant in the United States and the Philippines.

Mr. Cesar E. A. Virata, 77, has been a Director since 1995, Corporate Vice Chairman since June 2000 and Senior Adviser from 2007. He is also the Chairman and President of C. Virata and Associates, Inc., Management Consultants. Concurrently, he is a Director and/or Chairman of various companies, such as RSB, RCBC Capital, RCBC Forex, RCBC Realty, RCBC Land, Malayan Insurance, Great Life, Business World Publishing Corporation, Belle Corporation, Coastal Road Corporation, Luisita Industrial Park Corporation, Manila Electric Company, Pacific Fund Inc., Mapua Institute of Technology, Bankard, AY Foundation, Inc. and YGC Corporate Services, Inc. ("YGC Corporate Services"). Mr. Virata has held positions in the Philippine government, including Prime Minister, Secretary/Minister of Finance, Chairman of the Committee on Finance of the Batasan Pambansa (National Assembly) and member of the Monetary Board. He was also Chairman of the Land Bank of the Philippines. He has served as Governor for the Philippines to the World Bank, the Asian Development Bank and the International Fund for Agriculture Development. He was Chairman of the Development Committee of the World Bank and International Monetary Fund from 1976 to 1980 and Chairman of the Board of Governors of the Asian Development Bank. Prior to his Government positions, he was a Professor and Dean of the College of Business Administration of the University of the Philippines and Principal, SyCip Gorres Velayo & Company, Management Services Division. Mr. Virata graduated from the University of the Philippines with degrees in Mechanical Engineering and Business Administration (Cum Laude). He earned his Masters in Business Administration from the Wharton Graduate School, University of Pennsylvania.

Mr. Rizalino S. Navarro, 69, has been a Director of the Bank since 1999 and a Senior Adviser from 2007. He was the Bank's Executive Vice Chairman and Chief Executive Officer from 2004 to 2006. Currently, he is Chairman (Non-Executive) of Clark Development Corp. and Member of the Subic-Clark Area Development Council. He is also Chairman of EEI Corporation, Seafront Resources Corporation, Petroenergy Corporation ("Petroenergy"), Bankard, and a Director of Grepalife, Mapua Institute of Technology, HI, Malayan Insurance, YGC Corporate Services, and Upline Food Corporation. He has held various positions in the government including that of Secretary of Trade and Industry and member of the Monetary Board. Mr. Navarro graduated from the University of the East with a Bachelor of Science degree in Business Administration. He received his Masters in Business Administration from Harvard Business School.

Atty. Wilfrido E. Sanchez, 70, has been a Director of the Bank since 2006. He is a Tax Counsel at Quiason Makalintal Barot Torres & Ibarra Law Offices. He also holds the position of director in other companies, such as Adventure International Tours, Inc., Amon Trading Corp., Center for Leadership & Change, Inc., Dolphin Ship Management, Inc., EEI Corporation, Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., HI, and Universal Robina Corporation. He graduated from Ateneo de Manila University with a Bachelor of Laws degree and completed his Master of Laws at Yale University.

Atty. Teodoro D. Regala, 74, has been a Director of the Bank since 1999 and a Member of the Trust Committee since 2000. He is the Founding & Senior Partner and a member of the Executive Committee of Angara Abello Concepcion Regala & Cruz Law Offices. He is a Director of Bankard, Malayan Insurance, Datacraft Communications Systems, Inc., Datacraft Opsis Inc., MICO Equities, Safeway Philtech, Inc., and Director and Corporate Secretary of OEP Philippines, Inc., Asahi Glass Philippines, Inc., General Motors Automobiles Phils., Inc. and Republic Asahi Realty Corporation. He graduated from the University of the Philippines (Cum Laude) with a Bachelor of Laws degree.

Atty. Ma. Celia H. Fernandez-Estavillo, 36, is the Bank's Director, Corporate Secretary, and Corporate Legal Liaison and First Vice President and Head—Legal & Regulatory Affairs Group. She is also a Director and Corporate Secretary in Luisita Industrial Park, Philippine Integrated Advertising Agency, Averon Holdings, Inc., RCBC Capital, and Bankard and is a Trustee of Mapua Institute of Technology. Before joining RCBC, she was the Assistant Vice President for Global Business Development at ABS-CBN Broadcasting Corp., and Chief of Staff at the Office of Senator Edgardo J. Angara. She graduated from the University of the Philippines with a Bachelor of Science in Business Economics (Summa Cum Laude). She also graduated from the same university with a Bachelor of Laws degree (Cum Laude). She earned her Master of Laws (LL.M) in Corporate Law (Cum Laude) from New York University School of Law. She received the highest score in the Philippine Bar examinations of 1997.

Mr. Armando M. Medina, 58, is an Independent Director of the Bank. He is a member of various board committees of the Bank, including the Executive Committee, Trust Committee, Risk Management Committee, and Corporate Governance Committee. He is also an Independent Director of RCBC Capital, RSB, First Malayan Leasing & Finance Corporation, RCBC Forex. He graduated from De La Salle University with a Bachelor of Arts degree in Commerce and Economics and a Bachelor of Science in Commerce.

Atty. Teodoro Q. Peña, 75 has served as an Independent Director of the Bank since 2002 and Director from 1995 to 2002. He is also Chairman of the Bank's Audit Committee and Personnel & Evaluation Review Committee. He is also an Independent Director of RCBC Securities, Malayan Zurich Insurance Co. Inc, Bankard and RCBC Capital. He holds various positions in Philippine Constitution Association, Palawan State University, RSB, EEI Corporation, Educators Inc. and the Institute of Corporate Directors. He graduated from the University of the Philippines with a Bachelor of Laws degree and received a Master of Laws at Yale University.

Mr. Francisco C. Eizmendi, Jr., 71, is an Independent Director of the Bank. Prior to assuming this position, he was a member of the Bank's Advisory Board. Mr. Eizmendi is also an Independent Director at RCBC Forex and Bankard, Director at Grepalife and Trustee at the Institute of Corporate Directors. He served as President and Chief Operating Officer of San Miguel Corporation from 1987 to 2002. He graduated from the University of Sto. Tomas with a Bachelor of Science degree in Chemical Engineering.

Mr. Roberto F. de Ocampo, 61, has served as an Independent Director of the Bank since 2006. He also holds various Chairmanship and/or Directorship positions with other companies as well. Prior to his current position with the Bank, he was the President of the Asian Institute of Management. He also became Advisory Board Member of Metropolitan Bank & Trust Co. and Director of ABS-CBN Broadcasting, Inc. He also held various positions in the Government, including Secretary of Finance, Chairman of the Cabinet Cluster on Macro-Economy, and Chairman of the Committee on Privatization and Fiscal Incentives Review Board. He graduated from Ateneo de Manila University with a Bachelor of Arts degree in Economics. He earned his Masters in Business Administration from the University of Michigan.

Mr. Antonio L. Alindogan, Jr., 69, is currently an Independent Director of the Bank. He also holds directorship position on various companies including HI, C55, Inc., An-Cor Holdings, Inc., Philippines Airlines and PAL Holdings, Inc. among others. Prior to his assumption as director of the Bank, Mr. Alindogan was a member of the Monetary Board. He graduated as Magna Cum Laude from the De La Salle College with a degree of Bachelor of Science degree in Accounting.

Robert McCarthy, 53, assumed his position as Director of the Bank this year. He has also been a director of Spinnaker Capital Ltd since 2000. He once served in The Goldman Sachs Group, Inc., New York as an Associate. Mr. McCarthy has a Bachelor of Science degree in Business Administration from Hampshire College and earned his Masters in Business Administration and Masters in Arts at the Yale School of Management and Columbia University, New York respectively.

Christopher Ian Teague, 56, joined RCBC together with Mr. Robert McCarthy this year as Directors of the Bank. He is currently an investment officer of Spinnaker Capital (Asia) Pte Ltd. Previous positions held include Executive Director of Allco Equity Partners and Managing Director of both JPMorgan Chase & Co. and Citigroup. Mr. Teague earned his college degree in Cambridge University and has a Bachelors degree as well as a Master of Laws at Sydney University.

Mr. Alfonso T. Yuchengco is the father of Ms. Helen Y. Dee. Other than such relationships, none of the Bank's Directors are related to one another or to any of the Bank's executive officers.

The Directors of the Bank are elected at the annual shareholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

Board Committees

The Bank's Board of Directors has created each of the following committees and appointed Board members thereto. Each member of the respective committees named below has been holding office as of the date of this Offering Circular and will serve until his successor shall have been elected and qualified

Executive Committee

The Executive Committee has the power to act and pass upon such matters as the Board may entrust to it for action in between Board meetings. It may also consider and approve investments, purchase of stocks, bonds, securities, and other commercial papers for the Bank's portfolio.

Audit Committee

The Audit Committee provides oversight of the Bank's financial reporting and control, and internal and external audit functions. It is responsible for the establishment of the Bank's internal audit department and for the appointment of the Bank's internal auditor and independent external auditors. It is responsible for ensuring that a review of the effectiveness of the Bank's internal controls, including financial, operational, and compliance controls, and risk management, is conducted at least annually.

Trust Committee

The Trust Committee has the authority to conduct the fiduciary businesses of the Bank, including the power to grant loans and credit accommodations to clients using trust accounts.

Personnel Evaluation & Review Committee

The Personal Evaluation & Review Committee is the investigating body in cases of violation of the Bank's policies, rules and regulations. The Committee also recommends disciplinary measures and penalties to the Board of Directors in the case of violations.

Corporate Governance Committee

The Corporate Governance Committee assists the Bank's Board of Directors in fulfilling its corporate governance responsibilities. The Committee reviews and evaluates the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board. It is responsible for ensuring the Board's observance of corporate governance principles and guidelines, including those set forth in the Bank's Manual of Corporate Governance. It also sets compensation for the Board and Executive Officers and makes recommendations to the Board regarding the continuing education of directors, assignments to Board committees, and succession plans for Board members and senior officers.

Executive Officers

The names, ages and positions of the Bank's executive officers are as follows:

Alfredo S. Del Rosario Jr., 52, Executive Vice President, is the Head of the Overseas Filipino Banking Group (formerly the TeleMoney Group). He was the Head of the Commercial Banking Group from May 2006 to February 2007. Prior to joining the Bank, Mr. Del Rosario worked for AB Capital and Investment Corporation as Senior Vice President, Trust and Investment Division Head, and Information Technology Division Head (from January 2000 to May 2006). He also held directorship positions in AB Capital Securities, Inc., Stock Transfer Services, Inc., Araullo University, AB Card Corporation and Asianbank Corporation. Furthermore, Mr. Del Rosario previously worked for Global Business Bank as Senior Vice President and Branch Banking Group Head, AsianBank as Senior Vice President and Branch Banking Division and as Senior Vice President, Human Resources and Administration Division, Bank of America as Vice President, Human Resources, and for Philippine Airlines, FNCB Finance and the Ayala Group of Companies.

Eduardo Sergio G. Edeza, 50, Executive Vice President, is the Bank's Treasurer and Head of FMG. Prior to his appointment in the Bank, he had held various positions in government and in the private sector. Mr. Edeza has attended various training courses and seminars on finance, credit, foreign exchange and banking both in the Philippines and abroad.

Cecilia D. Padua, 59, Executive Vice President, is the Head of Operations. Prior to her cross-posting at the Head Office of the Bank, she was Head of Operations for RSB. She was officially appointed Senior Vice President, Head of Operations on 29 March 2004.

Ernesto P. Pinpin, 59, Executive Vice President, is the Bank's Chief Risk Officer and Head of CRISMS. He was previously the Head of the Bank's Commercial Banking Group. Mr. Pinpin rejoined the Bank in August 2004. He was RCBC's Head of Controllership Department from 1978 to 1982 and Head of Branches and IT from 1982 to 1984.

Ismael R. Sandig, 54, Executive Vice President, is the Head of RBG. He was a Senior Consultant and Assistant to the President from 2005 to 2006 at East West Bank Corporation. He also joined Philippine National Bank from 2001 to 2005, where his last appointment was as Retail Banking Sector Head and concurrent Consumer Finance Sector Head. He held various positions in Retail Banking in Union Bank of the Philippines, PCI Bank and Insular Bank of Asia and America.

Uy Chun Bing G., 55, Executive Vice President, is the Head of CBG, formerly the Corporate Business Development Group, a position he has held since 1 January 1997. He is also a Director of the Financial Brokers' Insurance Agency. Previously, Mr. Uy was the Head of the Bank's Binondo Branch and Area Supervisor for Binondo as Senior Vice President (1989 to 1996), First Vice President (1988 to 1989), Vice President (1987 to 1988) and the Head of the Divisoria Branch as Vice President (1982 to 1987) and Assistant Vice President (1980 to 1982).

Redentor C. Bancod, 43, has recently joined the Bank as Executive Vice President and Head of the IT Shared Services Group. Previously, he was Vice President & General Manager, Central Systems Asia of Sun Life Financial, Asia and Senior Vice President and Chief Technology Officer of Sun Life Of Canada (Philippines) Inc. from October 2003 to 2007, Senior Vice President & Chief Information Officer of Equitable PCI Bank from July 1996 to September 2003, Assistant Vice President and Head of Applications Development in Far East Bank from October 1993 to June 1996, Assistant Vice President of Regional Operations, Asia Pacific, of Sequel Concepts, Inc. USA/Ayala Systems Technology Inc. from November 1992 to September 1993, Project Manager in Union Bank of Switzerland, NA from April 1988 to November 1992 and Chief Designer and Technical Advisor in Computer Information System Inc. from March 1984 to April 1998. He holds degrees in AB Philosophy and BS Military Science frosm University of the Philippines.

Ma. Teresita A. Nuñez, 58, Executive Vice President, assumed the post of Head, Controllership Group, previously known as the Accounting and Control Group, starting March 2002. Ms. Nuñez was also the Head of the Bank's Controllership Division from 1992 to December 2003. She was the Head of the Accounting Department from 1984 to 1992 and Head of Treasury Division's Trading Group from 1982 to 1984.

Lope M. Fernandez, Jr., 58, Executive Vice President and current President and CEO of RSB. Prior to his appointment as President, he was the Head of the Consumer Lending Group of RSB. He is a Certified Public Accountant and holds a Bachelor's degree in Business Administration majoring in Accounting from the University of the East.

Elbert M. Zosa, 60, Executive Vice President, has been the Head of the Bank's Corporate Planning Group since April 2006. He was formerly Head of Strategic Planning of Equitable PCI Bank with responsibility over Corporate Planning and Corporate Communications. He also served in other capacities such as Head of International Services Group where he spearheaded the development of its remittance business and coordinated its foreign offices. He also served as Area Head for Marketing and Operations of some branches. He obtained his Master of Business Administration from the Wharton School, University of Pennsylvania.

Melissa G. Adalia, 55, Senior Vice President, is the Head of the Human Resources Group. Prior to joining the Bank, Ms. Adalia was Head of Human Resources for Asia United Bank from March 2001 to April 2006, ABN Amro Bank from 1999 to 2000, Great Pacific Bank in 1999, Bank of America Savings Bank, Dai-Ichi Group of Companies and SM Shoemart.

Manuel G. Ahyong Jr., 47, Senior Vice President, is the current Head of the Wealth Management Segment 2 (Makati) . Prior to joining the Bank in 2006, he was a Senior Vice President of Pramerica Financial, Director in Societe Generale, Vice President of Deutsche Bank, AG.; Deputy Manager and Head for Private Banking of Banque Indosuez; and Director for Private Banking of American Express Bank.

Marcelo E. Ayes, 55, Senior Vice President, is the Head of FMG's FCMD. Prior to joining the Bank, Mr. Ayes was First Vice President and Chief Dealer and Head of the Proprietary Trading Division at Equitable PCI Bank from 2001 to September 2006, and Head of the Treasury Marketing and Product Development Group from 1998 to 2001. Mr. Ayes also held various positions in the Philippine National Bank from 1978 to 1997, including a four-year term in Singapore and a five-and-a half-year term in Hong Kong.

Adeline N. Carbonell, 59, Senior Vice President, joined the Bank in May 2005 to head the newly re-organized Asset Management and Remedial Group. Before joining the Bank, Ms. Carbonell held various positions at the Philippine National Bank from 1970 to 2005. She has also attended various trainings and/or seminars in banking and related fields.

John Thomas G. Deveras, 44, Senior Vice President, is Head of Strategic Initiatives. Prior to joining the Bank in May 2007, he was an Investment Officer at International Finance Corporation. He also worked for PNB Capital and Investment Corporation as President, and Senior Vice President in PNB Corporate Finance. He holds a degree in Bachelor of Science degree in Management Engineering from Ateneo de Manila University and earned his Masters Business Administration from the University of Chicago.

Siony C. Dy Tang, 55, Senior Vice President, is currently the Head of Chinese Banking Division 1 of the CBG. She has been with the Bank since 1973.

Eli D. Lao, 51, Senior Vice President, is the Head of Chinese Banking Segment under the CBG since 2000. He has been with the Bank since 1978, holding various positions.

Rommel S. Latinazo, 48, Senior Vice President, is the Head of the Corporate Banking Segment 1 under the CBG. He joined the Bank in 2000 as First Vice President. Previously, he held various positions in Solidbank Corporation, Standard Chartered Bank, CityTrust Banking Corporation, First Pacific Capital Corporation and Philamlife Insurance Company.

Ana Luisa S. Lim, 48, Senior Vice President, heads the Internal Audit Division of the Bank. She is also a Director and Corporate Secretary of BEAMExchange, Inc. She joined the Bank in 2000 primarily to implement the risk-based audit approach under a shared-services set-up in conformity with the Bank's strategic risk management initiatives. Ms. Lim is a Certified Public Accountant, Certified Information Systems Auditor and Certified Internal Auditor.

Yasuhiro Matsumoto, 48, Senior Vice President, is the Head of CBG's Japanese Business Relationship Office since April 2006. Prior to this, he worked for The Bank of Tokyo-Mitsubishi UFJ, Ltd. since 1984, when the bank was named The Sanwa Bank, Ltd. He has also previously served as a Director of RCBC.

Ramon P. Ponce de Leon, 59, Senior Vice President, is the Head of the RBG Visayas and Mindanao Division. He joined the Bank in 1977. Before his tenure with RCBC, Mr. de Leon spent eight years with the Bank of Asia & Insular Bank of Asia & America.

Cynthia P. Santos, 54, Senior Vice President, is the Head of the TeleMoney since 1 July 2004. Prior to this position, Ms. Santos was the Head of the Corporate Planning Group and its Chief Information Officer. She started with RCBC as the Bank Economist.

Rolando S. Umali, 57, Senior Vice President, has been cross-posted to RSB as Group Head for Operations since 2001. Before his current assignment, he was the Group Head for Operations of RCBC since 1999.

Alexander Y. Cham, 58, Senior Vice President and is the current Regional Sales Manager for the Northern Luzon Regional Office. He joined the Bank as an Assistant Area Supervisor and Branch Manager in 1981. He graduated from the University of Santo Tomas with a Bachelor of Science degree in Commerce major in Marketing.

Michael O. de Jesus, 48, Senior Vice President, is the current Segment Head of Corporate Banking 2. He has a Bachelor of Arts degree in Economics from Union College in Schenectady, New York and an Masters in Business Administration (Finance) from The Wharton School, University of Pennsylvania.

Lourdes Bernadette M. Ferrer, 49, Senior Vice President, is currently the Head of Trust and Investments. Prior to joining the Bank on 1 September 2000, she held various related positions in Solidbank Corporation and the International Corporate Bank. She graduated from the University of the Philippines with a Bachelor of Science degree in Statistics and likewise obtained her Master's Degree in Business Administration from the same university.

Reynaldo P. Orsolino, 47, Senior Vice President and Head of the SME Division. Prior to joining the Bank, he served as Senior Vice President in Philippine National Bank from June 2003 to July 2007, and previously held senior positions at the Planters Development Bank, Asian Banking Corporation, and the Land Bank of the Philippines. He holds a degree in Bachelor of Arts degree in Economics from the University of the Philippines.

Rafael Andres R. Reyes, 47, Senior Vice President, is currently seconded as Chief Operating Officer of Bankard. He holds a Bachelor of Science degree in Commerce, major in Marketing Management from De La Salle University. Prior to joining the Bank, he served as First Vice President for Union Bank of the Philippines from September 2000 to July 2007.

Executive officers with the rank of Assistant Vice President and above are appointed annually by the Board of Directors in its Organizational Board Meeting right after the shareholders meeting which is held annually every last Monday of June. None of the Bank's executive officers are related to one another or to any of the Bank's Directors. There are no binding contracts or arrangements with regards to the tenure of the Bank's executive officers. All of the officers identified above are Filipino citizens, except for Mr. Yasuhiro Matsumoto.

Employees

As of 30 September 2007, the Bank had 3,780 permanent employees, of which 1,850, or 48.9%, were engaged in a professional managerial capacity and classified as "officers".

The following table presents the number of employees by category as of the dates indicated:

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006	2006	2007
Staff	2,005	1,908	1,841	1,843	1,930
Officers	1,862	1,929	1,979	1,981	1,850
Total	3,867	3,837	3,820	3,824	3,780

As of 30 September 2007, approximately 49.87% of the Bank's employees (not including subsidiaries) are employed at the head office and 50.13% are employed at its branches. As of such date, RSB had 1,161 employees. All of the Bank's non-managerial employees, other than those expressly excluded under the collective bargaining agreement, are represented by an independent union, the RCBC Employees Association. In November 2006, the Bank (not including subsidiaries) and RCBC Employees Association agreed on the terms of economic and non-economic collective bargaining agreements for the period from 1 October 2006 to 30 September 2011.

The Bank has not suffered any strikes in the past five years, and the management of the Bank believes that its relations with its employees and the union are good.

The Bank continues to invest in its employees through various training programs strategically focused on selling skills, customer service and product knowledge.

PRINCIPAL SHAREHOLDERS

The Yuchengco family, primarily through Pan Malayan, is the Bank's largest shareholder and, as of 31 December 2007, owned, 404,264,909 Shares, or approximately 42% of the Bank's issued and outstanding Shares. In addition, as of such date, other members of YGC owned or controlled an additional 104,343,209 Shares, or approximately 11% of the Bank's issued and outstanding Shares. As a result, YGC, which is controlled by the Yuchengco family, effectively controls the Bank. The Bank's second largest shareholder is Spinnaker which, as of 31 December 2007, owned approximately 13.2% of the Bank's issued and outstanding share capital.

As of 31 December 2007, the Bank had 867 shareholders of record worldwide. The following table shows the principal shareholders of the Bank, holding at least 5.0% of the outstanding common shares, as shown in the Bank's share register as at 31 December 2007:

Name of Shareholder	No. of Shares	% of Total Shares
Pan Malayan	404,264,909	41.99
PCD Nominee Corp (Non-Filipino)	157,510,761	16.36
PCD Nominee Corp (Filipino)	139,419,173	14.48
Spinnaker	127,480,295	13.24
RCBC Trust Account No. 75-077-8	59,622,688	6.19
TOTAL PRINCIPAL SHAREHOLDERS	**888,297,826**	**92.26**
TOTAL RCBC SHARES	**962,836,871**	**100.0**

Other than as specified above, the Bank is not aware of any other person or group of persons, directly or indirectly, with interests in 5.0% or more of the issued capital stock of the Bank.

The following table contains a summary of the effective holdings of the Yuchengco group:

Name of Shareholder	No. of Shares	% of Total Shares
Pan Malayan	404,264,909	41.99
RCBC Trust Acct. No. 75-077-8	59,622,688	6.19
Malayan Insurance	27,570,389	2.86
Grepalife	17,150,132	1.78
TOTAL YUCHENGCO GROUP	**508,608,118**	**52.82%**

ASSETS AND LIABILITIES

The tables below and accompanying discussions provide selected financial highlights regarding the Bank's assets and liabilities. The following unaudited information should be read together with the Bank's financial statements included in this Offering Circular as well as "Risk Management" and "Business".

Funding

The Bank's main sources of funding are time, savings and demand deposits. Deposits represented 89.9% and 90.4% of the Bank's sources of funding as at the end of fiscal 2006 and the nine months ended 30 September 2007. As of the end of fiscal 2006 and as at 30 September 2007, time, savings and demand deposits represented 56.9%, 36.8% and 6.3%, and 54.8%, 39.1% and 6.2%, respectively, of total consolidated deposits of ₱157.6 billion and ₱157.9 billion, respectively. In recent years, the Bank has made directed efforts to increase its deposit base. The Bank also sources its funding requirements from the interbank market and general financings.

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 for the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2004		2005		2006		2006		2007	
	Amount	Cost(1)	Amount	Cost(1)	Amount	Cost(1)	Amount	Cost(1)	Amount	Cost(1)
	(₱ millions, except average cost of funding which is in per cent)									
Deposits by type										
Demand	8,356.3	1.3%	7,712.3	1.1%	9,878.1	1.0%	9,693.8	0.8%	9,714.8	0.5%
Savings	51,471.0	1.1%	52,675.3	1.1%	57,975.9	1.1%	56,607.7	0.9%	61,671.0	0.7%
Time	77,431.3	4.8%	72,892.6	4.9%	89,696.2	4.9%	83,664.5	4.1%	86,525.6	4.1%
Total	137,258.6	3.2%	133,280.2	3.2%	157,550.2	3.1%	149,966.0	2.6%	157,911.4	2.6%
Deposits by currency										
Peso	92,595.9	3.9%	94,305.9	3.7%	113,829.7	3.4%	106,008.7	3.6%	116,820.3	2.7%
Foreign currency	44,662.7	1.9%	38,974.3	2.1%	43,720.5	2.2%	43,957.3	2.2%	41,091.1	2.2%
Total	137,258.6	3.2%	133,280.2	3.2%	157,550.2	3.1%	149,966.0	2.6%	157,911.4	2.6%
Borrowings										
Peso	700.9	8.6%	1,002.3	5.8%	692.0	8.8%	710.2	7.2%	455.6	6.3%
Foreign currency	16,229.0	2.9%	13,853.0	4.5%	16,942.0	6.5%	14,436.9	5.7%	16,375.9	6.7%
Total	16,929.9	3.2%	14,855.3	4.6%	17,634.0	6.5%	15,147.1	5.8%	16,831.5	7.1%

Notes:

(1) Average cost of funding.

DEPOSITS

The Bank's principal source of deposits is private individuals. As of fiscal 2006 and 30 September 2007, individual, partnership and association depositors accounted for approximately 62.6% and 57.5% of the Bank's consolidated total Peso-denominated deposit liabilities. The remainder of the deposits are principally wholesale deposits. The Bank's foreign currency-denominated deposits and funding are primarily handled through its FCDU operation, which is permitted to accept deposits and extend credit in foreign currencies. As of fiscal 2006 and 30 September 2007, the Bank's foreign currency deposits made up 27.8% and 26.0% of its total deposits.

The Bank has expanded its sources of funding in order to diversify the scheduled maturities of deposits and maintain a funding portfolio that will enable it to achieve funding stability, liquidity, and reduce the discrepancies between its loan and deposit maturities. The Bank has also introduced, or plans to introduce, internal and external programs to encourage increases in deposits, particularly traditional demand and savings deposits. 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 of 30 September 2007, individual term deposits with the Bank in excess of ₱1.0 million had a balance to maturity as set out below.

	As of 30 September 2007				
	Up to three months	Over three months to one year	Over one year to five years	Over five years	Total
			(₱ millions)		
RCBC	52,261.9	2,704.6	12.3	—	54,978.8
RSB	11,258.9	881.5	1,362.9	58.2	13,561.5
Total	65,520.8	3,586.1	1,375.2	58.2	68,540.3

As of 30 September 2007, 45.2% of the Bank's outstanding deposits were demand and savings deposits which can be withdrawn on demand without any prior notice from the customer. This compares to 43.1% as of 31 December 2006. The following table sets out an analysis of the maturities of the deposit base of the Bank:

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006	2006	2007
Demand	8,356.3	7,712.3	9,878.1	9,693.8	9,714,.8
Savings	51,471.0	52,675.3	57,975.9	56,607.7	61,671.0
Time					
30–90 days	65,822.2	58,258.5	73,195.0	62,423.3	63,733.0
91–180 days	4,491.2	7,857.7	10,874.3	12,199.7	12,713.0
181 days and longer	7,117.9	6,776.4	5,626.9	9,041.4	10,079.6
Total time deposits	77,431.3	72,892.6	89,696.2	83,664.4	86,525.6
Total	137,258.6	133,280.2	157,550.2	149,966.0	157,911.4

The Bank also maintains credit lines with domestic commercial banks and financial institutions in the interbank market primarily for treasury management purposes. Interbank borrowings are typically for short-term duration of between one day and a few weeks. Interbank deposits do not usually form a significant part of the Bank's funding base but, together with the Philippine government bond market, are important in the management of the Bank's liquidity. 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 through its participation in the interbank market in the Philippines.

The Bank is a member of the Philippine Deposit Insurance Corporation (the "PDIC") which insures all deposits up to a maximum of ₱250,000 per depositor. The PDIC is funded by semi-annual assessment fees at a prescribed percentage of the Bank's deposit liabilities less certain exclusions.

BILLS PAYABLE AND SUBORDINATED DEBT

The Bank also sources funds through bills payable and subordinated debt. Bills payable represent borrowings from local and foreign banks and the Bank's senior notes issue, amounting to U.S.$150.0 million. As of 31 December 2006 and 30 September 2007, approximately 96.1% and 97.3% of bills payable were denominated in foreign currencies, respectively. The Bank also issues subordinated debt from time to time in order to strengthen its capital base as well as to raise funds. The following describes certain details of the Bank's outstanding senior notes and subordinated debt.

Lower Tier 2 Notes. In July 2003, the Bank issued Lower Tier 2 Notes, which are unsecured and subordinated, in the principal amount of ₱5.0 billion with the following significant terms and conditions:

- The Lower Tier 2 Notes shall mature on 11 July 2013, provided that they are not previously redeemed;
- Subject to satisfaction of certain regulatory approval requirements, the Bank may redeem all of the outstanding Lower Tier 2 Notes on 11 July 2008 at a redemption price equal to 100.0% of the face value of the Tier 2 Notes together with accrued and unpaid interest thereon;
- Up to 11 July 2008, the Lower Tier 2 Notes bear interest at the rate of 12.0% per annum, payable semi-annually; and
- Unless the Lower Tier 2 Notes are previously redeemed, the interest rate from 11 July 2008 to maturity will be reset at the equivalent of the five-year Philippine Treasury benchmark bid yield, as of 11 July 2008 multiplied by 80% plus 5.6% per annum.

Senior Notes. In February 2005, the Bank issued U.S.$150.0 million of senior notes, which are unsecured and unsubordinated, with the following significant terms and conditions:

- The senior notes shall mature on 24 February 2010, provided that they are not previously redeemed;
- Upon notice by any holder of the senior notes to the Bank in accordance with the terms and conditions of the senior notes, the Bank will, upon expiry of such notice, redeem in whole (but not in part) the senior notes subject of such notice on 23 February 2008; and
- The senior notes bear interest at the rate of 6.9% per annum payable semi-annually in arrear.

Perpetual Securities. In October 2006, the Bank issued U.S.$100.0 million of non-cumulative step-up callable perpetual securities, which are unsecured and subordinated, with the following significant terms and conditions:

- The securities are perpetual but may be redeemed by the Bank in October 2016 and every interest payment date thereafter;
- The securities may be redeemed in the event of certain tax and regulatory events;
- Up to 27 October 2006, the securities bear interest at the rate of 9.875% per annum;
- Unless the securities are previously redeemed, the interest rate from 27 October 2006 will be reset quarterly at the rate of 7.02% per annum above the London interbank offered rate for three-month U.S. dollar deposits; and
- The Bank may elect to not make payments on the securities upon the occurrence of certain events; should the Bank elect to not make such payments, it shall not declare or pay any distribution or dividend or make any other payment on certain junior securities, including the Shares, until it has made payments on the securities for a period of 12 months.

Short-term Borrowings

The following table sets forth, for the periods indicated, information related to the Bank's short-term borrowings, which are comprised primarily of money-market borrowings. Short term borrowings exclude deposits and securities sold under repurchase agreements.

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006[1]	2006	2007
	(₱ millions, except percentages)				
Total bills payable					
Period-end balance	16,929.9	14,855.3	17,634.0	15,147.1	16,831.5
Average balance during the period	17,377.3	19,266.1	15,382.3	14,631.7	16,096.6
Maximum outstanding	19,530.0	25,552.9	17,633.9	15,816.6	18,771.1
Average interest rate during the period	3.2%	4.6%	6.5%	5.8%	6.3%

Liquidity

The Bank must manage its liquidity to meet financial liabilities arising from the withdrawal of deposits, repayments of deposits at maturity and working capital needs. Funds are required to create assets in the form of loans and extensions of other forms of credit, investments in securities, trade financing, and capital investments. The Bank seeks to ensure sufficient liquidity through a combination of active management of liabilities, a highly liquid asset portfolio, the securing of an ample money market line, and the maintenance of repurchase facilities to protect against any unexpected liquidity shortages.

Pursuant to BSP regulations, commercial banks are required to maintain a statutory legal reserve of 10.0% of peso deposits and deposit substitutes and a liquidity reserve of 11.0% of the same base. At least 25.0% of the statutory reserve requirement must be deposited with the BSP. The remaining portion of the required reserve may be held by all banks in the form of cash in vault and/or Government securities or evidence of indebtedness of the Government. Up to 40.0% of the amount deposited with the BSP earns interest at the rate of 4.0% per annum. Under BSP Circular No. 539, the liquidity reserve is required to be in the form of three-, six- or twelve-month deposits in reserve deposit accounts with the BSP. The BSP also requires banks to maintain asset cover of 100.0% for foreign currency liabilities of their FCDUs, of which 30.0% must be in liquid assets. The Bank has complied with the legal and liquidity reserve requirements for both peso and FCDU deposits. The Bank currently complies with all of the requirements described above.

As of 31 December 2006 and 30 September 2007, the Bank's liquid assets amounted to ₱106.4 billion and ₱98.5 billion, respectively, representing 47.5% and 43.7% of the Bank's total assets. Liquid assets include cash and other cash items, amounts due from BSP, amounts due from other banks, interbank loan receivables and trading and investment securities (excluding held-to-maturity investments). The Bank's liquid assets increased by 95.6% from 31 December 2005 to 31 December 2006 and by 2.7% from 30 September 2006 to 30 September 2007 primarily due to increases in available-for-sale securities and amounts due from the BSP.

The following table sets forth information with respect to the Bank's liquidity position as of the dates indicated:

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006[(1)]	2006	2007
	(₱ millions, except percentages)				
Liquid assets[(1)]	40,585.5	54,399.9	106,354.9	95,909.6	98,522.9
Financial ratios					
Liquid assets-to-total assets	22.3%	29.5%	47.5%	46.6%	43.7%
Liquid assets-to-total deposits	29.6%	40.8%	67.5%	64.0%	62.4%
Net loans-to-total deposits	60.6%	52.5%	49.4%	49.1%	56.2%

Notes:

(1) Liquid assets includes cash and cash items, deposits with the BSP and deposits with other banks, interbank loans receivable and trading and investment securities

Loan Portfolio

As of 31 December 2006 and 30 September 2007, respectively, the Bank's total loan portfolio amounted to ₱84.7 billion and ₱96.4 billion, respectively, representing approximately 37.8% and 42.8% of its total assets as of that date.

The following table sets out the Bank's consolidated gross loans and advances by principal lending units, as of the dates indicated:

	For the years ended 31 December						For the nine months ended 30 September			
	2004		2005		2006		2006		2007	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions, except percentages)									
Corporate Banking	30,809.0	32.3	35,104.1	44.0	38,822.1	45.9	35,528.7	42.4	52,906.6	54.9
Retail Banking[(1)]	3,694.0	3.9	4,660.2	5.8	6,901.1	8.2	6,117.0	7.3	7,101.2	7.4
RSB—Consumer	17,315.1	18.2	19,980.2	25.0	25,625.0	30.3	24,132.7	28.8	28,128.6	29.2
Others[(2)]	43,413.0	45.6	20,097.1	25.2	13,308.1	15.7	18,015.7	21.5	8,293.7	8.6
Total	95,231.1	100.0	79,841.6	100.0	84,656.3	100.0	83,794.1	100.0	96,430.1	100.0

Notes:

(1) Includes commercial loans provided by RSB.

(2) Includes loans granted to the Government and BSP.

The Bank's gross loan portfolio decreased by 16.3% from 31 December 2004 to 31 December 2005 as a result of the combined strategies of decreasing lending to higher risk corporate borrowers and disposing of NPLs. This decrease was partially offset by increases in consumer lending. The Bank's total consolidated loan portfolio increased by 6.3% from 31 December 2005 to 31 December 2007 primarily due to increases in consumer loans. As at 30 September 2007, the Bank's total consolidated loan portfolio stood at ₱96.4 billion.

Consumer loans, including home mortgage, auto and salary deducted loans grew at an annual growth rate of 15.4% from fiscal 2004 to the end of fiscal 2005 due to increasing consumer market and increased spending. As of 31 December 2006, total consumer loans accounted of 30.3% of the Bank's total gross loan portfolio. As of 31 December 2006, the Bank's consumer loans grew by 28.3% to ₱25.6 billion from ₱20.0 billion as of 31 December 2005 as a result of increased consumer lending demand, partly offset by RSB's transfer of NPLs to ROPA. As at 30 September 2007, total consumer loans accounted for 29.2% of the Bank's total gross loan portfolio. As of 30 September 2007, the Bank's consumer loans grew by 16.6% to ₱28.1 billion from ₱24.1 billion as of 30 September 2006 as a result of increased consumer lending demand.

Loans to the corporate market increased by 10.6% from ₱35.1 billion as of 31 December 2005 to ₱38.8 billion as of 31 December 2006. As at 30 September 2007, this figure was ₱52.9 billion. Corporate lending accounted for 45.9% of the total gross loan portfolio of the Bank as of 31 December 2006, and 54.9% as of 30 September 2007. Lending to SMEs totaled ₱6.9 billion as of 31 December 2006 and ₱7.1 billion as of 30 September 2007. As of 31 December 2006 and 30 September 2007, loans to SMEs accounted for 8.2% and 7.4% of the Bank's total gross loan portfolio, respectively.

Industry Concentration

As of 30 September 2007, the real estate industry and the manufacturing industry represented the largest sectors of the Bank's consolidated loan portfolio, at 35.9% and 20.2%, respectively. The majority of real estate lending are mortgage loans to consumers and working capital loans to private real estate developers. The majority of lending to the manufacturing sector takes the form of working capital loans and trade financing to manufacturers while the majority of lending to the services industry takes the form of loans to the government and financial sectors. The Bank has set industry limits reviewed on a periodic basis to manage risk concentrations.

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

	For the years ended 31 December						For the nine months ended 30 September			
	2004		2005		2006		2006		2007	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions except percentages)									
Real estate, renting and other related activities	21,577.4	22.7	24,140.8	30.2	36,336.9	42.9	27,701.9	33.0	34,676.7	36.0
Manufacturing (various industries)	18,083.2	19.0	17,726.5	22.2	14,392.1	17.0	17,941.7	21.4	19,483.8	20.2
Wholesale and retail trade	9,017.2	9.5	10,833.7	13.6	9,162.6	10.8	10,557.0	12.6	9,244.6	9.6
Financial intermediaries	19,294.9	20.3	12,279.5	15.4	8,755.9	10.3	12,497.1	14.9	13,821.8	14.3
Other community, social and personal activities	12,238.2	12.9	7,597.7	9.5	3,112.3	3.7	9,034.3	10.8	6,194.5	6.4
Transportation and communication	2,120.2	2.2	1,655.0	2.1	1,473.7	1.7	1,903.9	2.3	1,354.7	1.4
Agriculture, fishing and forestry	939.0	1.0	1,082.1	1.4	815.1	1.0	627.6	0.8	1,899.7	2.0
Others	11,961.0	12.6	4,526.3	5.7	10,607.8	12.5	3,530.6	4.2	9,754.3	10.1
Total	95,231.1	100.0	79,841.6	100.0	84,656.3	100.0	83,794.1	100.0	96,430.1	100.0

The Bank intends to continue to focus its lending activities on lower risk areas such as Government guaranteed loans, trade finance loans, and mortgage loans. BSP regulations require banks to allocate 25.0% of their loanable funds for agricultural credit in general, of which at least 10.0% must be made available for agrarian reform credit. Alternatively, a bank may temporarily meet all or a portion of its agrarian reform and agricultural lending requirements by investing in eligible government securities under certain conditions. The Bank has historically complied with these requirements by allocating the required percentage of loans to the agricultural sector and investing in eligible securities. As of 31 December 2006, the Bank satisfied these requirements as it provided ₱16.1 billion in loans to borrowers in the agricultural sector and held ₱370.5 million in securities that were eligible to qualify as agricultural credit. As of 30 September 2007, these figures stood at ₱18.1 billion and ₱910.0 million, respectively.

Maturity

Loans repayable on demand principally comprise inter-bank loans, while short-term loans principally comprise loans to corporates for working capital and loans to consumers and SMEs. Medium- and long-term loans are typically granted to corporations and businesses to finance capital expenditures and mortgages advanced for property purchases. The percentage of the Bank's loans with longer maturities has increased recently due primarily to increases in mortgage loans.

The following table sets out an analysis of the Bank's consolidated loans by maturity:

	For the years ended 31 December						For the nine months ended 30 September			
	2004		2005		2006		2006		2007	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions except percentages)									
Within one year	54,950.8	57.7	42,434.6	53.1	42,666.7	50.4	42,406.9	50.6	52,078.8	54.0
One to five years	28,949.4	30.4	23,681.6	29.7	25,995.3	30.7	27,403.1	32.7	27,795.4	28.8
More than five years	11,330.9	11.9	13,725.4	17.2	15,994.4	18.9	13,984.1	16.7	16,555.9	17.2
Total	95,231.1	100.0	79,841.6	100.0	84,656.3	100.0	83,794.1	100.0	96,430.1	100.0

Foreign Currencies

The Bank maintains its practice of extending foreign currency loans primarily to exporters who have an identifiable source of foreign currency earnings from which to repay the loans or otherwise hedged, and to importers who have authorization from the BSP to purchase foreign currency to service their foreign currency obligations.

As of 30 September 2007, 65.1% of the Bank's loan portfolio was denominated in Pesos with 34.9% being denominated in foreign currencies, the majority of which comprised U.S. dollars. As of 31 December 2006, 63.4% of the Bank's loan portfolio was denominated in Pesos with 36.6% in foreign currencies, the majority of which comprised U.S. dollars. The following table shows an analysis of the Bank's gross loans and receivables by currency:

	For the years ended 31 December						For the nine months ended 30 September			
	2004		2005		2006		2006		2007	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions except percentages)									
Pesos	50,446.7	53.0	43,737.1	54.8	53,702.6	63.4	48,885.0	58.3	62,745.3	65.1
Foreign currency	44,784.4	47.0	36,104.5	45.2	30,953.7	36.6	34,909.1	41.7	33,684.8	34.9
Total	95,231.1	100.0	79,841.6	100.0	84,656.3	100.0	83,794.1	100.0	96,430.1	100.0

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 Management—Interest Rate Risk Management". The Bank's loan pricing is set by the Bank's Asset and Liability Committee ("ALCO") on a weekly basis and is driven by market factors, the Bank's funding position and the credit risk associated with the relevant borrower. The lending market in the Philippines is principally based on floating rate lending. The Bank's floating rate loans are re-priced periodically by reference to the applicable or 90-day Philippine Treasury Bill rate and to the Bank's internal cost of funds known as the 'Transfer Pool Rate' plus a spread. As a result, the Bank's exposure to interest rate fluctuations is significantly reduced. See "Risk Management—Interest Rate Risk Management". The following table shows the total amount of the Bank's loans that have fixed interest rates and variable or adjustable interest rates as of 30 September 2007:

	As of 31 December 2006		As of 30 September 2007	
	Amount	%	Amount	%
	(₱ million, except percentages)			
Fixed rate	7,954.2	9.4	13,792.4	14.3
Variable or adjustable rates	76,702.1	90.6	82,637.7	85.7
Total loans	84,656.3	100.0	96,430.1	100.0

The Bank's pricing policy with respect to its interest-bearing liabilities is also set by ALCO at its weekly meetings. Current account deposits do not pay any interest and savings account deposits typically pay no interest for deposits falling below a maintaining balance. The basic rate for savings account deposits that are above the minimum threshold was 1.0% per annum until January 2007 when it was reduced to 0.75%. The basic rate was further reduced to 0.5% in February 2007. The Bank also offers special interest rates for deposits under its time deposits account. These larger deposits are placed on pre-agreed terms and pay interest rates that generally track Philippine Treasury Bill rates.

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 of 31 December 2006, the Bank's single borrower limit ("SBL"), set by the BSP, was ₱4.5 billion. As at 30 September 2007, the Bank's SBL stood at ₱5.5 billion. In determining whether the Bank meets the SBL, the Bank includes exposure to related accounts (including accounts of subsidiaries and parent companies of the borrower). This limit does not apply to loans which are secured with non-risk assets, including cash deposits and government securities. The Bank has complied with the SBL on all of its loans.

As of 31 December 2006 and 30 September 2007, the Bank's single largest corporate borrower as at the date in question accounted for 4.4% and 3.9% of the Bank's outstanding loan portfolio, respectively. As of 31 December 2006, the Bank's ten largest performing borrowers (including groups of individuals and companies) accounted for ₱17.4 billion, or 20.5% of the Bank's outstanding loan portfolio. As of 30 September 2007, the Bank's ten largest performing borrowers (including groups of individuals and companies) accounted for ₱23.5 billion, or 24.4% of the Bank's outstanding loan portfolio. Of the Bank's top ten borrowers as at 31 December 2006 and 30 September 2007, two were related parties. See "Related Party Transactions".

The following table presents a breakdown of total loans by principal amount as a percentage of total loans as of the periods indicated:

	For the years ended 31 December		For the nine months ended 30 September	
	2005	2006	2006	2007
	(In percentages)			
₱5,000,000 or less	35.7	34.6	36.0	32.9
₱5,000,001 to ₱10,000,000	4.3	4.3	4.2	4.2
₱10,000,001 to ₱15,000,000	2.8	2.4	2.4	2.1
More than ₱15,000,000	57.2	58.8	57.4	60.7
Total	100.0	100.0	100.0	100.0

Secured and Unsecured Loans

The Bank principally focuses on cash flows and cash generating capabilities in assessing the creditworthiness of borrowers. However, the Bank will secondarily seek to minimize credit risk with respect to a loan by securing loans with collateral or guarantees. Acceptable collaterals include real estate mortgages (with loan values ranging from 50.0% to 60.0% of appraised value), chattels (with loan values ranging from 30.0% to 50.0% of appraised value), shares of stocks, club shares and other marketable securities (with loan value of 50.0% of market value). As of 31 December 2006 and 30 September 2007, respectively, approximately 74.1% and 62.9% of the Bank's total loans were extended on a secured basis, with approximately 37.5% and 35.5% of the secured loans backed by real estate mortgages.

The following table sets forth the Bank's secured and unsecured loans, classified (in the case of secured loans) according to type of security:

	For the years ended 31 December						For the nine months ended 30 September			
	2004		2005		2006		2006		2007	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions except percentages)									
Secured										
Real estate mortgage	30,666.8	32.2	32,970.1	41.3	31,777.4	37.5	32,397.8	38.7	34,204.5	35.5
Chattel mortgage	10,845.2	11.4	8,838.0	11.1	10,342.2	12.2	8,779.1	10.5	10,505.6	10.9
Deposit hold-out	5,843.5	6.1	8,014.8	10.0	8,938.7	10.6	11,512.7	13.7	10,003.4	10.4
Other securities	20,375.1	21.4	9,500.5	11.9	11,647.9	13.8	6,519.6	7.8	5,951.7	6.2
Total secured	67,730.6	71.1	59,323.4	74.4	62,706.2	74.1	59,209.2	70.7	60,665.2	62.9
Unsecured	27,500.5	28.9	20,518.2	25.6	21,950.1	25.9	24,584.9	29.3	35,764.8	37.1
Total	95,231.1	100.0	79,841.6	100.0	84,656.3	100.0	83,794.1	100.0	96,430.1	100.0

In the Philippine banking industry as a whole and in the Bank's loan portfolio, secured loans are predominantly secured by real estate. Other forms of collateral include collateral over machinery and inventory and cash collateral. Personal guarantees are accepted from time to time as an additional source of collateral enhancement.

Loan Administration and Loan Loss Provisioning

Loan Classifications

The Bank classifies loans as non-performing in accordance with BSP guidelines. The guidelines require banks to classify their loan portfolios based on perceived levels of risk to encourage timely and adequate management action to maintain the quality of their loan portfolios. These classifications are then used to determine the minimum levels of allowances for loan losses which banks are required to maintain. All of the Bank's risk assets, in particular the Bank'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 follows:

LOANS ESPECIALLY MENTIONED

These are loans that the Bank believes have potential weaknesses that deserve management's close attention, and which deficiencies, if left uncorrected, could affect repayment. Weaknesses include repayment capability which may be endangered by economic/market conditions as reflected in the borrower's deteriorating financial performance, the existence of technical defects in the supporting collateral, and insufficient credit information about the borrower.

SUB-STANDARD LOANS

This classification includes loans that the Bank believes represent a substantial and unreasonable degree of risk to the Bank. Those loans classified as sub-standard have a weakness that is well-defined that jeopardizes their liquidation. Such weaknesses may include adverse trends of a financial, managerial, economic or political nature, or a significant weakness in collateral.

DOUBTFUL LOANS

These are sub-standard loans for which the Bank believes collection in full, either according to their terms or through liquidation, is highly improbable, and substantial loss is probable.

LOSS LOANS

Loans which fall under this category are considered uncollectible or of insufficient value to warrant classification as bankable assets. The appropriate classification is generally made once payments on a loan are in arrears for more than 90 days, but may be made earlier when the loan is not yet past due if there are, among other things, indications of the deterioration of the creditworthiness of the borrower. Once interest on a loan is past due for 90 days, the Bank will classify the entire principal outstanding under such loan as past due, and it may initiate calling on all loans outstanding to that borrower as due and demandable.

Provisions

Under existing BSP regulations, a general provision for loan losses shall be established 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.

In accordance with BSP guidelines, the Bank makes the appropriate specific loan loss allowance as follows:

	Loan loss allowance (% of principal amount of loan)
Risk classification	
Especially mentioned	5.0%
Sub-standard (secured)	10.0%
Sub-standard (unsecured)	25.0%
Doubtful	50.0%
Loss	100.0%

The specific loan loss provision determined under BSP guidelines may differ from that determined under PAS 39. PAS 39 requires the level of loan loss provisioning to be determined on the basis of future recoverable amounts of the loans and receivables discounted at their original effective interest rates. If the loan or receivable has a variable interest rate, the discount rate for measuring the recoverable amount is the current effective interest rate determined under the contract. If the loan or receivable is collateralized and foreclosure is probable, the Bank should measure the level of loan loss provisioning based on the fair value of the collateral.

The BSP conducts an annual audit on the Bank's individual loans to determine the classifications the Bank must apply to its loans when reporting classified loans to the BSP. The last audit was conducted in September 2005 and the next audit is expected to take place in the first quarter of fiscal 2007. The following is a summary of the risk classification of the aggregate loan portfolio (as a percentage of total outstanding loans) and allowance for impairment of the Bank as reported to the BSP on a non-consolidated basis as of the dates indicated below:

	For the years ended 31 December						For the nine months ended 30 September			
	2004		2005		2006		2006		2007	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions except percentages)									
Risk classification										
Especially mentioned	2,854.6	3.0	3,268.4	4.1	2,993.3	3.5	3,539.0	4.2	2,931.3	2.9
Sub-standard—secured	8,733.2	9.2	6,054.3	7.6	8,105.5	9.6	9,289.2	11.1	7,422.2	7.5
Sub-standard—unsecured	3,511.8	3.7	2,482.7	3.1	1,356.1	1.6	4,713.0	5.6	584.1	0.6
Doubtful	530.7	0.6	74.8	0.1	48.9	0.1	181.1	0.2	33.9	0.0
Loss	1,277.6	1.3	900.2	1.1	352.5	0.4	1,193.1	1.4	674.9	0.7
Total classified	16,907.9	17.8	12,780.3	16.0	12,856.4	15.2	18,915.4	22.6	11,646.5	11.7
Unclassified	78,323.2	82.3	67,061.3	84.0	71,799.9	84.8	64,878.7	77.4	87,783.63	88.3
Total	95,231.1	100.0	79,841.6	100.0	84.656.3	100.0	83,794.1	100.0	96,430.1	100.0
Allowance for impairment										
Classified	3,438.0	34.7	2,241.1	25.2	1,763.2	30.9	3,566.4	63.0	1,727.7	32.9
Unclassified	6,471.4	65.3	6,647.5	74.8	3,946.2	69.1	2,095.1	37.0	3,527.8	67.1
Total	9,909.4	100.0	8,888.6	100.0	5,709.4	100.0	5,661.5	100.0	5,255.5	100.0

Allowance for impairment on classified accounts is based on the total principal balance outstanding. Loans classified as "loss" assets are generally written off by the Bank in accordance with BSP guidelines. The Board of Directors of the Bank has discretion as to the frequency of write-off provided that these are made against provisions for impairment or against current operations. The prior approval of the Monetary Board is required to write off loans to the bank's directors, officers, stockholders and their related interests.

In addition to making specific allowances for impairment based on the risk classification of its loan portfolio, the Bank's allowances for impairment also include general allowances of 1.0% of the gross loan portfolio plus 5.0% of unclassified restructured loans. Generally, movements in the Bank's allowances for impairment represent provisions charged to operations. Since 2001, however, loan loss provisioning has fluctuated because total provisions set aside by the Bank already exceeded the levels recommended by the BSP.

On a monthly basis, all past-due accounts are updated for movements according to Aging Of Past Due Accounts reports, which are summarized for portfolio tracking purposes and used to implement proactive strategies in accounts management.

EFFECTS OF SALES OF NPAs

In connection with the sale of certain NPAs to SPVs by the Bank, the Bank is permitted to reallocate the provisions taken with respect to the sold NPLs for general loan loss provision and/or for specific provision of loan accounts that may be classified in the future. As of 30 September 2007, the BSP allowed the Bank to reallocate an aggregate of ₱5.6 billion for such purposes, ₱2.6 billion of which was used to write-off receivables of Bankard that RCBC acquired in December 2006.

As permitted under BSP Resolution No. 135, the Bank had deferred over ten years the recognition of the required additional allowance for impairment as determined from the NPAs transferred to PIOI, and the losses determined from the NPAs transferred to other SPVs, totaling ₱2.0 billion in fiscal 2004, ₱1.6 billion in fiscal 2005 and ₱1.3 billion in fiscal 2006. The schedule of amortization of the required additional allowance for impairment and losses as prescribed under BSP Resolution No. 135 are 5.0% for the first three years, 10.0%. for the next four years, and 15.0% for the remaining three years. The Bank recorded the amortization determined in accordance with BSP Resolution No. 135 amounting to ₱15.7 million in fiscal 2004 (charged against 2004 operations) and ₱257.8 million and ₱347.1 million in fiscal 2005 and 2006, respectively (each charged against the allowance for impairment described above). The Bank also recorded an additional amortization of ₱37.6 million in fiscal 2005.

While the accounting treatment discussed above is allowed under BSP Resolution No. 135, PFPS/PAS, however, require the full recognition of the required additional allowance for impairment and losses against the current operations in the period such impairment and losses were determined instead of capitalizing it as deferred charges and amortizing it over future periods. Had the Bank fully recognized the required additional allowance for impairment and losses amounting to ₱2.0 billion in fiscal 2004, ₱1.6 billion in fiscal 2005 and ₱1.3 billion in fiscal 2006, as determined at the time the NPAs were transferred in accordance with PFRS/PAS, the Bank's consolidated net income would have decreased by the same amount, respectively. Conversely, allowances for impairment would have also decreased by ₱163.4 million in fiscal 2004, ₱151.5 million in fiscal 2005 and ₱1.3 billion fiscal 2006 relating to NPAs transferred that qualified for derecognition.

BANKARD

With respect to credit card receivables, in August 2003, the BSP issued Memo Circular No. 398 which became effective in December 2003, prescribing, among others, the standard valuation reserves requirements for delinquent and potentially uncollectible credit card receivables. Bankard determined that the required allowance for impairment on the total credit card receivables portfolio based on the BSP Circular would have a significant impact on its fiscal 2003 financial statements if the whole amount were recognized as of 31 December 2003. The management of Bankard requested an approval from the BSP to allow the staggered booking of the required allowance for doubtful accounts over a period of seven years from 2004 to 2010. The BSP, through its letter dated 14 January 2004, informed Bankard that the Monetary Board, under its Resolution No. 1872 dated 22 December 2003, granted Bankard's request to stagger the booking of the valuation reserves of ₱3.6 billion over seven years provided that Bankard adds equivalent amounts of equity.

The staggered booking over the seven-year period is shown below:

Year	%	Amount of Amortization of Required Allowance for Impairment
2004	5.0	₱180,100,000
2005	5.0	₱180,100,000
2006	18.0	₱648,360,000
2007	18.0	₱648,360,000
2008	18.0	₱648,360,000
2009	18.0	₱648,360,000
2010	18.0	₱648,360,000

In 2006, Bankard sold and transferred to RCBC certain credit card receivables, ₱2.8 billion of which were approved by the BSP for the staggering scheme. After the sale and transfer of the receivables, the Bank charged in fiscal 2006 an impairment loss for ₱162.1 million of such receivables and wrote-off the remaining balance of ₱2.6 billion. However, the approval and confirmation for the transfer of the receivables from Bankard to RCBC is still pending with the BSP and hence the Bank's auditors believe that this transaction should not have been recorded before such approvals and confirmations have been obtained. Had the transfer and subsequent write-off of the impaired credit card receivables not been recorded, and had Bankard recognized the required allowance for impairment in the period the losses were determined in accordance with PFRS/PAS, both the balances of the Bank's consolidated loans and receivables account and surplus account would have decreased by ₱3.4 billion, ₱3.2 billion and ₱2.6 billion as of 31 December 2004, 2005 and 2006, respectively. The Bank's consolidated net income would have increased by ₱180.1 million in each of fiscal 2004 and 2005 and decreased by ₱2.1 billion in fiscal 2006. Following the sale of its assets to RCBC, Bankard maintained ₱3.2 billion of overdue receivables for which it has made full provision. On 15 March 2007, the BSP formally informed the Bank that it interposes no objection on the foregoing transaction.

Allocation of Provisions

The following table sets out the Bank's reconciliation of its balance of reserves for loan losses on a consolidated basis over the periods indicated:

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006	2006	2007
			(₱ millions)		
Balance of reserves at beginning of period	11,553.3	12,249.1	12,212.7	12,212.7	10,395.0
Additions charged to expense	2,213.0	1,566.7	1,749.4	1,439.0	1,225.5
Charge-off	427.4	483.4	3,384.1	3,266.8	1,116.8
Reversals and others	1,090.2	1,119.9	183.0	—	—
Balance at the end of the period	12,249.1	12,212.7	10,395.0	10,384.9	10,503.7

The following table sets out, for the periods indicated, the allocation of the total provisions held by the Bank amongst its principal lending units.

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006	2006	2007
			(₱ millions)		
Corporate Business Development	4,006.3	3,104.0	1,824.0	1,822.2	1,843.1
Commercial Banking	2,144.2	1,904.0	1,137.8	1,135.9	1,148.9
RSB—Consumer	1,547.6	1,409.1	1,794.1	1,627.6	1,874.6
Others[1]	4,551.0	5,795.6	5,639.1	5,799.2	5,637.1
Total provisions	12,249.1	12,212.7	10,395.0	10,384.9	10,503.7

Notes:

(1) Includes provisions that were originally allocated to NPLs that have since been transferred to SPVs. Under BSP regulations, the Bank may allocate these provisions to any of its lending units.

Non-performing Assets

In accordance with BSP guidelines, loans and other assets in litigation are classified as NPAs. The Bank's NPAs principally comprise ROPA and NPLs. The table below sets out details of the Bank's NPLs, non-accruing loans, ROPA, NPAs, restructured loans, and write-offs for loan losses for the specified periods on a consolidated basis excluding the NPLs transferred by the Bank to PIOI and NPRMI (see "—Sales of NPLs"):

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006	2006	2007
	(₱ millions, except percentages)				
Non-performing loans—net	10,575.9	8,481.7	6,334.2	8,177.4	6,966.5
Classified loans	16,908.0	12,694.0	18,915.0	18,915.0	19,120.9
Total loans—net	93,044.2	78,831.8	83,573.3	82,251.2	95,258.8
Total non-performing loans-to-total loans(1)	11.4%	10.8%	7.6%	9.9%	7.3%
Classified loans / total loans	17.8%	15.9%	22.3%	22.6%	19.8%
Non-accruing loans	10,575.9	8,481.7	6,334.2	8,177.4	6,966.5
Non-accruing loans-to-total loans	11.4%	10.8%	7.6%	9.9%	7.3%
ROPA—gross	13,577.8	13,928.6	12,084.3	13,734.1	10,181.6
ROPA / total tangible assets	7.6%	7.7%	5.5%	6.7%	4.6%
ROPA / total tangible equity (excluding intangibles and deferred tax assets)	145.0%	131.3%	56.8%	104.0%	38.9%
Non-performing assets (NPL—net plus ROPA, gross)	24,153.8	22,410.3	18,418.5	21,911.5	17,148.1
Non-performing assets as a percentage of tangible assets (excluding intangibles and deferred tax assets)	13.5%	12.3%	8.3%	10.8%	7.7%
Allowance for impairment (total loans, ROPA)	9,480.3	10,274.8	6,726.2	9,233.8	7,404.5
Allowance for impairment (loans)	7,723.2	7,879.2	4,626.7	7,139.3	5,290.0
Allowance for impairment (ROPA)	1,757.1	2,395.6	2,099.5	2,094.5	2,114.6
Allowance for impairment (loans) as a percentage of total non-performing loans	73.0%	92.9%	73.0%	87.3%	75.9%
Allowance for impairment (total) as a percentage of non-performing assets	39.3%	45.9%	36.5%	42.1%	43.2%
Total restructured loans	4,124.3	2,910.0	3,560.4	3,894.9	3,894.9
Classified as performing	2,576.1	1,503.2	2,269.0	2,496.6	2,468.0
Classified as non-performing	1,548.2	1,406.8	1,291.4	1,398.3	1,426.8
Restructured loans as a percentage of total loans	4.3%	3.6%	4.2%	4.7%	4.0%
Allowance for impairment (total) as a percentage of non-performing assets and restructured loans classified as performing	35.5%	43.0%	32.5%	37.8%	37.8%
Allowance for impairment (total) as a percentage of non-performing assets and restructured loans classified as non-performing	36.9%	43.1%	34.1%	39.6%	39.9%
Loans—written off	427.4	483.4	3,383.5(2)	3,266.8	1,116.8

Notes:

(1) The BSP issued Circular No. 351 on September 2002 allowing banks that have no unbooked valuation reserves to exclude from non-performing classification loans classified "loss" in the latest examination of the BSP which are fully covered by allowance for impairment, provided that interest on said loans shall not be accrued. As of 30 September 2007, NPLs fully covered by allowance for impairment amounted to ₱1.2 billion resulting in a 7.08% NPL ratio.

(2) Includes Bankard and RSB only. For the periods described in the table, the Bank (on a non-consolidated basis) did not write off any 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 ROPA account are no longer classified as NPLs. Accrued interest arising from loan accounts are classified according to the classification of their corresponding loan accounts except for those which remain uncollected after six months from the date such loans or installments have matured or have become past due for which a 100.0% allowance is made for uncollected accrued interest receivables.

Interest foregone is the interest due on NPLs that has not been accrued in the Bank's book of accounts. The following table presents the outstanding amount of interest foregone on existing NPLs as at the respective dates:

Period	Interest Foregone
	(₱ millions)
Fiscal 2004	1,103.4
Fiscal 2005	717.4
Fiscal 2006	690.3

The following table presents the aging analysis of the Bank's non-accruing loans as at 30 September 2007:

Period	Amount	%
	(₱ millions)	
Over 180 days	891.8	12.8
90–180 days	1,689.9	24.3
31–90 days	4,384.8	62.9
	6,966.5	100.0

Sectoral Analysis of Non-Performing Loans

The following table sets forth the Bank's gross NPLs by the respective borrowers' industry or economic activity and as a percentage of the Bank's gross NPLs on a non-consolidated basis as of the dates indicated:

	For the years ended 31 December						For the nine months ended 30 September			
	2004		2005		2006		2006		2007	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(₱ millions except percentages)									
Agriculture, hunting and forestry	82.5	0.7	74.0	0.8	22.6	0.4	59.8	0.7	14.0	0.2
Fishing	27.6	0.3	2.6	—	55.3	0.9	2.7	0.0	53.6	0.8
Mining and quarrying	54.5	0.5	46.9	0.5	45.7	0.7	46.2	0.5	3.3	0.1
Manufacturing	4,196.9	37.4	3,002.6	32.3	690.6	11.1	2,697.5	31.8	865.3	13.1
Electricity, gas and water	314.0	2.8	67.8	0.7	243.6	3.9	30.0	0.4	0.0	0.0
Construction	183.6	1.6	178.9	1.9	181.6	2.9	196.1	2.3	146.5	2.2
Wholesale and retail trade	1,470.3	13.1	1,598.9	17.2	1,241.3	20.1	1,449.0	17.1	1,378.5	20.9
Hotels and restaurants	29.5	0.3	36.6	0.4	27.2	0.4	21.9	0.3	21.0	0.3
Transportation, storage and communication	637.1	5.7	281.1	3.0	151.2	2.4	287.6	3.4	153.5	2.3
Financial intermediation	452.8	4.0	570.4	6.1	296.9	4.8	539.1	6.4	238.4	3.6
Real estate and other business services	2,785.9	24.8	2,464.0	26.5	1,806.6	29.0	2,331.5	27.50.0	1,225.0	18.6
Education	1.9	—	2.1	—	2.1	—	2.2	0.0	1.8	0.0
Health and social work	24.3	0.2	22.2	0.2	17.3	0.3	17.2	0.2	18.0	0.3
Other community, social and personal services	18.6	0.2	46.4	0.5	16.3	0.3	16.5	0.2	6.1	0.1
Others[(1)]	935.8	8.3	901.3	9.7	1,422.6	22.9	784.4	9.2	2,468.6	37.44
Total	11,215.3	100.0	9,295.8	100.0	6,222.0	100.0	8,481.6	100.0	6,593.6	100.0

Notes:

(1) Includes employees' car / housing / salary loans, consumer loans and bills purchased.

The Bank's NPLs on a consolidated basis represented approximately 7.58% and 7.08% of the Bank's total consolidated gross loan portfolio of as of 31 December 2006 and 30 September 2007, respectively. There were no loans to DOSRI within the Bank's portfolio of NPLs as of 30 September 2007.

Ten Largest NPLs

As of 31 December 2006 and 30 September 2007, the Bank's ten largest NPLs accounted for 3.1% and 2.8%, respectively, of its total loans to customers and 35.6% and 38.7%, respectively, of its gross NPLs to customers. As of this same date, the Bank's exposure to its ten largest NPLs ranged from ₱115.5 million to ₱589.4 million, and amounted to approximately ₱2,698.2 million in aggregate.

As of 30 September 2007, no individual borrower or group accounted for more than 8.5% of the Bank's total amount of gross NPLs.

	Type of Banking Arrangement	Gross Principal Outstanding	Provisions	Principal Outstanding Net of Provisions for Credit Losses	Type of Collateral[1]
			(₱ millions)		
Personal Loan	Sole	589.4	56.6	532.8	REM
Development Real Estate	Sole	524.3	60.3	464.0	REM
Fish & Other Marine Products Trading	Sole	254.9	254.9	0.0	LC/PO
Gas	Sole	242.5	0.00	242.5	JSS
Development Real Estate	Sole	237.8	23.8	214.0	REM
Development Real Estate	Sole	219.1	21.9	197.2	Deed of Pledge
Corn Trading	Sole	194.1	0.0	194.1	JSS
Textile Manufacturing	Sole	171.2	0.0	171.2	Bonds
Development Real Estate	Sole	149.3	14.9	134.4	REM
Electrical Apparatus Manufacturing	Syndicated	115.5	11.6	103.9	MTI

Notes:

(1) 'REM' means Real Estate Mortgage, LC / PO means letter of credit and purchase order, 'JSS' means Joint-and-Several Signatures, and 'MTI' means Mortgage Trust Indenture.

Loan Restructuring

In order to manage its loan portfolio and reduce its exposure to NPLs, 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 cashflows of the borrower in question. The Bank has also agreed to debt-for-equity swaps, but rarely uses this as a restructuring solution. In certain instances, the Bank has also favorably considered discounted compromise loan settlement schemes, provided the corresponding net present value analyses result in better returns and risk considerations versus yields and risks posed by longer-term restructures or litigation.

In accordance with BSP guidelines, NPLs which are successfully restructured are considered to be current and are no longer treated by the Bank as non-performing, generally following a period of three months of continued payments on the restructured loans. As of 31 December 2006, the Bank had a consolidated portfolio of approximately ₱3.6 billion of total restructured loans, including both performing and non-performing amounts. As at 30 September 2007, this figure stood at ₱3.9 billion.

The following table sets out the Bank's consolidated restructured loans for the specified periods:

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006	2006	2007
			(₱ millions)		
Non-performing restructured loans	1,548.2	1,406.8	1,291.4	1,398.3	1,426.8
Performing restructured loans	2,576.1	1,503.2	2,269.0	2,496.6	2,468.0
Total	4,124.3	2,910.0	3,560.4	3,894.9	3,894.9

Foreclosure and Disposal of Assets

The Bank's preferred strategy for managing its exposure to NPLs that are secured is to restructure the payment terms of such loans. The Bank will only foreclose on a NPL if restructuring is not feasible or practical, or if the borrower cannot or will not repay the loan on acceptable terms. In the case of larger loans, the Bank may also consider accepting a payment in kind (or *dacion en pago*) arrangement. Generally, the Bank will pursue foreclosure options if it believes that no restructuring option is available after 45 to 60 days of negotiations. Foreclosure procedures may then require 30 to 60 days to complete.

The Bank's Remedial Management Division ("RMD") is responsible for the remedial management, loan restructuring and asset recovery activities of all potentially problematic and defaulted credits regardless of principal size. Once the security over the collateral provided by either retail or corporate borrowers is foreclosed, the Bank's ROPA is managed by the Asset Management Support Division.

The Bank had net ROPA of ₱11.8 billion, ₱11.5 billion, ₱10.0 billion and ₱8.1 billion as of 31 December 2004, 2005 and 2006 and 30 September 2007, respectively. Of total ROPA as of 30 September 2007, ₱36.7 million consisted of the Bank's holdings in shares of stocks and chattels and ₱5.1 billion represented the Bank's holdings in real property, which comprised 2,523 properties on a non-consolidated basis.

BSP rules recommend immediate disposal through sale of ROPA assets. If such immediate sale is not possible, BSP rules recommend that such ROPA assets be charged-off annually providing a 10.0% valuation reserve beginning on the sixth year after the ROPA is booked. The Bank's valuation reserves on ROPA amounted to ₱1.6 billion as of 31 December 2005 and ₱1.3 billion as of 31 December 2006. As of 30 September 2007, approximately ₱3.5 billion of ROPA had been held by the Bank for more than five years.

The Bank sells its ROPA through public and private sealed bidding, auctions and negotiated sales. Installment sales have a term of five to seven years and the Bank requires purchasers to make a forfeitable deposit of at least 10.0% of the sales price. The Bank generally charges fixed interest of 12.0% to 15.0% per annum for the remaining term. Title to ROPA remains with the Bank until it receives full payment of the purchase price. Under ROPA sales contracts, if any installment payment falls in arrears, the purchaser is deemed to forfeit all of its prior payments and the Bank treats such prior payments as reductions in the book value of the ROPA. For the year ended 30 December 2006 and the nine-month period ended 30 September 2007, respectively, the Bank experienced a default rate of approximately 2.7% and no defaults with respect to ROPA sold on an installment basis.

In fiscal 2006, the Bank sold ₱2,195.4 million of ROPA in private sales. Of that amount, ₱1,603.8 million represented cash sales and ₱591.6 million represented installment sales. This compares to ₱2,198.8 million of ROPA sold in private sales for the nine months ended 30 September 2007, of which ₱1,811.3 million represented cash sales and ₱387.5 million represented installment sales. The Bank also generates earnings from its ROPA by leasing them on a short-term basis.

During the nine months ended 30 September 2007, the Bank continued to pursue in-house development and joint development projects for the purposes of developing and enhancing the marketability of certain ROPA.

Transfer of NPAs

The overall asset quality of the Bank's loan portfolio has changed significantly in recent years as a result of transfers of NPAs, particularly NPLs. These transfers have been made primarily to SPVs. The NPLs sold to SPVs (other than those sold by RSB) are not reflected on the Bank's statements of condition. The following table sets forth the principal amount of NPAs transferred to SPVs by RCBC for the periods indicated:

	Principal amounts for the years ended 31 December			Principal amounts for the nine months ended 30 September	
	2004	2005	2006	2006	2007
	(₱ millions)				
PIOI	3,770.9	1,433.2	—	—	—
Global SPVs	685.6	—	—	—	—
Asian Pacific Recoveries	—	2070.1	—	—	—
Star Two (SPV-AMC), Inc	—	—	4,364.9	—	—
New Pacific Resources Management	—	—	—	—	1,698.6

In addition, in February 2005 RSB transferred to PIOI ₱85.7 million of NPLs that it maintained on its statement of condition and subsequently wrote-off.

As part of certain of the transfers of the NPAs, the Bank received subordinated notes issued by the SPV. The subordinated notes issued by PIOI and NPRMI included a provision that the amount and schedule of payments on the notes is contingent and dependent on the amount and timing of collections made by the SPV on the NPAs transferred. Under PFRS/PAS, these provisions are indicative of an incomplete transfer of the risks and rewards of ownership of the NPAs. PFRS/PAS requires that (a) an entity retaining majority of the residual risks and rewards of ownership of certain assets of an SPV should reflect in its financial statements its proportionate interest in such SPV and (b) an entity should substantially transfer all the risks and rewards of ownership of an asset before such asset could no longer recognized on its balance sheet. Had the Bank reflected in its financial statements its interest in PIOI and NPRMI and continued to recognize the NPAs transferred in accordance with PFRS/PAS, the gross balance of the Bank's consolidated loans and receivable account as of 31 December 2004, 2005, 2006 and September 30, 2007 would have increased by ₱3.8 billion as of 31 December 2004 and ₱5.2 billion as of 31 December 2005, 2006 and September 30, 2007 and the related allowance for impairment would have been recognized amounting to ₱1.5 billion in fiscal 2004 and ₱1.7 billion in both fiscal 2005, fiscal 2006 and ₱1.3 billion for the nine months ended 30 September 2007. Investment Property would have increased by ₱1.7 billion as of September 30, 2007 and Available for Sale Securities would have decreased by the same amount.

The following sets out details of the Bank's NPLs, non-accruing loans, ROPA, NPAs, restructured loans, and write-offs for loan losses *including* the NPLs transferred by the Bank (not including those transferred by RSB) to PIOI and NPRMI as of and for the periods indicated:

	For the years ended 31 December			For the nine months ended 30 September	
	2004	2005	2006	2006	2007
	(₱ millions, except percentages)				
Non-performing loans—net	14,346.9	13,735.7	11,588.2	13,431.4	12,220.5
Classified loans	16,908.0	12,694.0	18,915.0	18,915.0	19,120.9
Total loans—net	96,815.2	84,085.8	88,827.3	87,505.2	100,512.8
Total non-performing loans-to-total loans[(1)]	14.8%	16.3%	13.1%	15.4%	12.2%
Classified loans / total loans	17.1%	14.9%	21.0%	21.2%	18.8%
Non-accruing loans	14,346.9	13,735.7	11,588.2	13,431.4	12,220.5
Non-accruing loans-to-total loans	14.8%	16.3%	13.1%	15.4%	12.2%
ROPA—gross	13,577.8	13,928.6	12,084.3	13,734.1	11,880.2
ROPA / total tangible assets	7.6%	7.7%	5.5%	6.7%	5.3%
ROPA / total tangible equity (excluding intangibles and deferred tax assets)	147.2%	131.4%	56.8%	104.0%	45.3%
Non-performing assets (NPL—net plus ROPA, gross)	27,924.8	27,664.3	23,672.5	27,165.5	24,100.7
Non-performing assets as a percentage of tangible assets (excluding intangibles and deferred tax assets)	15.6%	15.2%	10.7%	13.3%	10.8%
Allowance for impairment (total loans, ROPA)	9,480.3	10,274.8	6,726.2	9,233.8	7,694.5
Allowance for impairment (loans)	7,723.2	7,879.2	4,626.7	7,139.3	5,290.0
Allowance for impairment (ROPA)	1,757.1	2,395.6	2,099.5	2,094.5	2,404.5
Allowance for impairment (loans) as a percentage of total non-performing loans	53.8%	57.4%	39.9%	53.2%	43.3%
Allowance for impairment (total) as a percentage of non-performing assets	33.9%	37.1%	28.4%	34.0%	31.9%
Total restructured loans	4,124.3	2,910.0	3,560.4	3,894.9	3,894.9
Classified as performing	2,576.1	1,503.2	2,269.0	2,496.6	2,426.8
Classified as non-performing	1,548.2	1,406.8	1,291.4	1,398.3	1,426.8
Restructured loans as a percentage of total loans	4.2%	3.4%	4.0%	4.4%	3.8%
Allowance for impairment (total) as a percentage of non-performing assets and restructured loans classified as performing	31.1%	35.2%	25.9%	31.1%	29.0%
Allowance for impairment (total) as a percentage of non-performing assets and restructured loans classified as non-performing	32.2%	35.3%	26.9%	32.3%	30.1%
Loans—written off	427.4	483.4	3,383.5[(2)]	3,266.8	1,116.8

Notes:

(1) Inclusive of the ₱3.8 billion loans transferred to PIOI in 2004 and ₱1.4 billion transferred to PIOI in 2005, and ₱1.7 billion ROPAs transferred to NPRMI in 2007.

RISK MANAGEMENT

The Bank is exposed to risks that are particular to its lending and trading businesses and the environment in which it operates. The Bank's goal in risk management is to ensure that it understands, measures and monitors the various risks that arise from its business activities, and that it adheres strictly to the policies and procedures which are established to address these risks.

The Bank employs a committee system as a fundamental part of its process of managing risk. Each committee consists of the Chief Executive Officer, the President, and other senior executives. The key committees are as follows:

- The Executive Committee, which sets documentation and credit support standards and reviews and approves large counterparty credit limits and considers new or unusual credit-related transactions;
- The Risk Management Committee, which ensures portfolio diversification, establishes risk policies reflecting business priorities, approves exposure measurement standards and reviews concentrations of credit risk;
- The Senior Management Committee, which oversees all operational and other matters that affect the Bank's day to day activities and reviews new products and businesses and ensures that policies and procedures are established and in place prior to doing business; and
- ALCO, which appraises market trends, economic, and political developments and provides strategic direction in the management of interest rate risk, liquidity risk, and trading and investment portfolio decisions.

The Bank has established CRISMS, headed by a chief risk officer, to identify, measure and assist in controlling and monitoring the risks inherent in its activities. CRISMS is independent of all business segments and reports directly to the Risk Management Committee.

Liquidity Risk Management

Liquidity risk is the risk that there are insufficient funds available to adequately meet all maturing liabilities, including demand deposits and off-balance sheet commitments, due to: (a) the inability to liquidate assets or obtain adequate funding (funding liquidity risk) and (b) the inability to easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (market liquidity risk).

The Bank's liquidity policy is to manage its operations to ensure that funds available are more than adequate to meet credit demands of its customers and to enable deposits to be repaid on maturity. The main sources of the Bank's funding are capital, core deposits from retail and commercial clients and wholesale deposits. The Bank also maintains a portfolio of readily marketable securities to further strengthen its liquidity position. The Bank's liquidity policies and procedures are set out in its Funding and Liquidity Plan. At least once annually, the Bank's Treasurer presents a business plan containing a request for liquidity limits to ALCO for final approval and ratification by the Board of Directors. The funding plan effectively serves as a projected funding requirement based on assumptions from the forecasted balance sheet.

As of 31 December 2006 and 30 September 2007, 50.7% and 54.0%, respectively, of the Bank's total portfolio was represented by gross loans with remaining maturities of less than one year. Of the Bank's ₱58.9 billion total portfolio of investment securities as of 31 December 2006, ₱3.6 billion, or 6.1%, was invested in investment securities with remaining maturities of one year or less, while as of 30 September 2007, ₱5.6 billion of the Bank's ₱59.4 billion total portfolio of investment securities was invested in investment securities with remaining maturities of one year or less. The Bank's trading and investment securities account includes securities issued by sovereign issuers, primarily Government treasury bills, fixed rate treasury notes and floating rate treasury notes, and foreign currency denominated bonds issued by the Government.

Other resources include amounts due from the BSP, amounts due from other banks and interbank loans receivables, which accounted for 6.2%, 3.2% and 9.4%, respectively, of the Bank's total assets as of 31 December 2006 and 7.4%, 1.8% and 6.4% as of 30 September 2007. Deposits with banks are made on a short-term basis with almost all being available on demand or within one month.

The primary responsibility of managing liquidity risk lies with the ALCO, which disseminates its liquidity strategy across all business units within the Bank that conduct activities that impact liquidity. ALCO's primary responsibilities include: (a) ensuring that the Bank and its legal vehicles maintain adequate liquidity, sufficient capital and the appropriate funding to meet all business requirements and comply with all regulatory requirements; (b) building a stable funding structure by managing the long-term profiles of the Bank's asset and liability maturities (the structural gap); (c) managing the balance sheet and ensuring that the strategies are in accordance with adequate liquidity, capital and diversified funding; (d) determining asset/liability pricing consistent with the strategies for the balance sheet; (e) diversifying the funding of each legal vehicle of the Bank by source, maturity, instrument and currency; (f) implementing policies of the Board of Directors on all issues that affect capital, funding or liquidity; and (g) informing the Board of Directors regularly of the liquidity situation of the Bank and informing the Board of Directors immediately if there are any material changes in the Bank's current or prospective liquidity position.

ALCO measures liquidity risk by assessing all of its cash inflows against its outflows to identify the potential for any net shortfalls going forward, including funding requirements for off-balance-sheet commitments. The Bank's core measure of liquidity, the Maximum Cumulative Outflow ("MCO"), is defined as the amount of prospective funding that the Bank will require at pre-specified future dates in normal operating requirements and measures the liquidity gap between maturing liabilities and assets. The MCO Limit is proposed by the Treasurer and CRISMS, reviewed by the Risk Management Committee and approved by the Board of Directors.

To ensure that the Bank has sufficient liquidity at all times, the Bank's Treasurer and CRISMS formulates a contingency plan using extreme scenarios of adverse liquidity and evaluates the Bank's ability to withstand these prolonged scenarios. The contingency plan focuses on the Bank's strategy for coordinating managerial action during a crisis and includes procedures for making up cash flow shortfalls in adverse situations. The plan details the amounts of funds (such as unused credit facilities) the Bank has available to it and the scenarios under which it could use them.

The following tables sets forth the asset/liability gap position for the Bank's operations on a non-consolidated basis as of 30 September 2007:

	Balance	Up to one month	Two to three months	Four months to one year	Greater than one year
			(₱ millions)		
Assets					
Cash and other cash items	4,322.3	12.0	—	—	4,310.2
Total loans	67,578.5	1,543.0	2,503.0	1,941.0	61,591.5
Total investments	61,780.9	28,294.9	—	4,256.0	29,230.1
Placement	32,191.2	16,760.9	361.8	—	15,068.6
Other assets	26,060.4	—	—	—	26,060.4
Total assets	191,933.4	46,610.8	2,864.8	6,197.0	136,260.9
Liabilities and capital					
Liabilities					
Deposit liabilities[1]	126,340.2	4,912.0	2,500.0	718.0	118,210.2
Bills payable	16,447.1	4,407.0	185.0	7,966.0	3,889.0
Other liabilities	21,025.0	3,189.0	102.3	11,582.6	6,151.2
Total liabilities	163,812.3	12,508.0	2,787.3	2,0266.6	128,250.4
Capital					
Capital stock	10,488.0	—	—	—	10,488.0
Other equity accounts	4,414.6	—	—	—	4,414.6
Surplus, surplus reserves, undivided profits, etc	13,218.4	—	—	—	13,218.4
Total capital	28,121.0	—	—	—	28,121.0
Total liabilities and capital	191,933.3	12,508.0	2,787.3	20,266.6	156,371.4
Asset/liability gap	—	34,102.8	77.5	(14,069.6)	(20,110.5)

Notes:

(1) Customer deposits maturing in one month reflect Philippine market characteristic of large numbers of short-term deposits that are generally re-deposited.

Interest Rate Risk Management

The Bank follows a policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates is kept within acceptable limits. The Bank's risk measurement system incorporates different risk factors for different categories of instruments (e.g., fixed income or money market) within each currency where the Bank holds interest rate sensitive positions.

ALCO meets at least weekly to set rates for various asset and liability and trading products. In pricing interest rates, foreign exchange and fee based products, ALCO considers funding costs, market conditions, transaction volume, competitor's rates, among others, when pricing interest rates, foreign exchange and fee based products.

A majority of the Bank's total loan portfolio is on a floating rate based on an internal cost of funds. The spread varies for various types of loans and credit quality. Loan rates and the bulk of the deposit liabilities which are in special savings account are reset every 30 to 90 days. Hence, exposure to interest rate fluctuations are significantly reduced. No interest is paid on nearly all current accounts while regular savings accounts earn a fixed rate of 0.5% per annum.

The interest rate sensitive instruments of the Bank's trading and investment portfolio are managed by a system of loss limit and Management Action Trigger ("MAT") controls which quantify management's tolerance for losses on and month to date cumulative loss. In addition value-at-risk ("VaR") (i.e., potential loss) is computed to determine potential losses.

The Bank employs a "gap analysis" to measure the interest rate sensitivity of its assets and liabilities. The asset/liability gap analysis measures, for any given period, any mismatch between the amounts of interest-earning assets and interest-bearing liabilities which would re-price, during that period. If there is a positive gap, there is asset sensitivity, which generally means that an increase in the interest rates would have a positive effect on the Bank's net interest income. If there is a negative gap, this generally means that an increase in the interest rates would have a negative effect on the Bank's net interest income.

Credit Risk Management

Credit risk is the risk that the borrower, issuer or counterparty in a transaction may default and cause a potential loss to the Bank. The Bank is exposed to credit risk as trading counterparty to dealers and customers, as direct lender and as a holder of securities. Categories of credit risk include contingent credit risk (the risk that potential counterparty or customer obligations become actual and will not be repaid on time), country risk (the risk that actions of sovereign governments or other uncontrollable events will adversely affect the ability of counterparties or customers to fulfill obligations to the Bank), event risk (the risk that the Bank will incur risk in unusual situations which are not captured in the daily risk management tools), underwriting risk (the risk that an issue will lose value after launching but before trading in the secondary markets), and custody risk (the risk that arises when the Bank has assets in the form of securities entrusted to a third party as a custodian).

The Bank's overall goal of credit risk management is to maximize its risk-adjusted rate of return by maintaining credit risk exposure within approved parameters. The Bank's credit policies are established by the Executive Committee and/or the Board of Directors and are set out in the Bank's Credit Policy Manual. As described in the Credit Policy Manual, the Bank's credit objectives are:

- To maintain, as much as possible, a consciously-designed, balanced loan portfolio in terms of industry exposure and maturities;
- To continue to upgrade the quality of the loan portfolio;
- To increase the risk assets in a systematic way to the extent allowed under the risk assets to net worth ratio required by the BSP but with a comfortable margin for contingencies;
- To favor well-rounded, long-term relationships over short term or one-time relationships; and
- To maintain profitability without being uncompetitive but within the guidelines on returns set by management.

Credit Risk Assessment

The Bank maintains a formalized internal rating system to differentiate the degree of credit risk in the different credit exposures of the Bank.

In mid-2004, the bank shifted from an alphanumeric credit rating system, which made use of a qualitative approach to classifying loans, to a ten-level numeric rating model, which employed a credit scoring methodology to determine asset quality. This was in response to the requirements of Basel II and was adapted from the BAP-BSP framework. In 2005 and 2007, further refinements to the rating model was introduced.

The bank's Revised Internal Credit Risk Rating System is based on a scoring system, which classifies borrowers into a 10-level risk classification. This is primarily derived from the Borrower Risk Rating, which serves as an assessment of the credit worthiness of the borrower based on its financial condition, balance sheet strength, ability to service debt, industry position and management quality. Adjustments are then made to take into account the credit package/structure and other risk factors to arrive at the Composite Risk Rating. The risk rating is then taken into consideration when determining the credit package, the provisioning requirements as well as the pricing for the loan.

Borrower Risk Rating	Description	Allowance for Probable Loss
1	Excellent	—
2	Strong	—
3	Good	—
4	Satisfactory	—
5	Acceptable	—
6	Watchlist	—
7	Special mention	5.0%
8	Substandard	Secured (10.0)%
		Unsecured (25.0)%
9	Doubtful	50.0%
10	Loss	100.0%

The Bank's Credit Risk Division is responsible for monitoring the overall composition and quality of the credit portfolio, with the goal of identifying and minimizing concentration risk. Credit limits are set in order to avoid risk concentration. The bank has existing credit policies setting limits for local and foreign counterparties, for various industry sectors as well as for different countries, which serve as guides for business initiatives. These are regularly updated and upgraded to ensure efficient loan portfolio management.

Credit Approval Process

The Bank has three Credit Committees for loans, two under CBDG (one apiece for Corporate Accounts and for SMEs) and the FMG, which screen and evaluate credit proposals originating from lending units before these are presented to the approving bodies. These Credit Committees have identified support units which monitor and review the Bank's credit exposures. The lending units evaluate the borrower and the purpose of the loan and negotiate the terms of the loan with the borrower. At the post-approval stage, lending officers conduct regular client calls in order to monitor the account's performance. Borrowers are required to submit on a regular basis their interim and audited financial statements to monitor the borrowers' financial viability. Credit reviews on borrowers are also conducted regularly to assess the creditworthiness of accounts and their compliance with the Bank's policies and procedures. Movements in the total loan portfolio and exposures to various industries are also regularly monitored.

Credit Approval Authority

The authority to extend credit or commit the Bank to extend credit rests on the Board of Directors, which has delegated its authority, subject to certain approval limits, to certain designated credit authorities. All substantial transactions are subject to review and approval by the Executive Committee. In addition, a clear separation of duties exists between the officers recommending credit-related transactions and those who authorize them.

For the granting of credit facilities that expire within one year of approval, the Bank has a delegation of authority hierarchy based on the amount of the credit facility, whether the facility is secured and/or guaranteed and the nature of the credit facility.

Certain categories of loans, including term loans, personal loans, adversely-rated accounts, bills purchased for local clearing and documentary export bills, are subject to special credit authority rules.

Credit Monitoring and Review Process

The Bank's credit review function is independent of the credit granting process. It is the Bank's policy that credit performance be systematically monitored by staff other than the officer who initially reviewed the transaction. The credit review process also involves conducting periodic internal evaluations of credit risk processes to determine that credit activities are in compliance with the Bank's credit policies and procedures, credits are authorized within the guidelines established by the Bank's Board of Directors and the quality and value of individual credits are being accurately reported to senior management.

The Bank performs an Account Profitability Analysis ("APA") on its existing facilities at least when such facilities are renewed and often more frequently for important relationships. The methods of profitability analysis used in the APAs include return on funds employed and returns on risk asset taking into consideration the capital charge of the risk asset.

As part of its loan portfolio management, the Bank closely monitors past due accounts and their developments. On a monthly basis, the Loan Portfolio Monitoring Section prepares an Aging of Past Due report, which contains the principal past dues outstanding on a per account basis, the aging of the past due and the latest status of the account. Status updates on the past due accounts are also being reported to the bank's Credit & Collection Committee on a monthly basis.

Financial Markets Group

The minimum approval authority for credit lines granted by the FMG is its President or Executive Vice-Chairman, which can approve clean credit accommodations of up to ₱5.0 million. The FMG's Credit and Collection Committee is authorized to approve clean credit accommodations that range from ₱5.0 million to ₱10.0 million, provided the tenor of the transaction is within seven days and the new or existing counterparty is given the highest credit rating by any two of the internationally-accepted credit ratings agencies. Executive Committee approval is required for all other accommodations and for structured products.

OFW Remittances

Different approval authority levels and limits apply to the establishment of lines for releasing remittance funds to TeleMoney couriers, depending on the type of collateral offered.

Consumer Loans

The approval authority levels and limits differ among the different consumer loan products under RCBC Savings Bank. Approval authority of Division Heads and all other lower officers pertain only to the loan products carried. Approval limits range from a minimum of ₱0.3 million (for personal loans) to ₱5.0 million, with approving authorities ranging from the Region Head to the President. For amounts of ₱10.0 million and above, approval is elevated to the bank's Loan Committee and the Executive Committee. Approvals should conform with the credit policies set forth for the respective product line.

Credit Monitoring and Review Process

The Bank's credit review function is independent of the credit granting process and reports directly to the Board of Directors. It is the Bank's policy that credit performance be systematically monitored by staff other than the officer who initially reviewed the transaction. The credit review process also involves conducting periodic internal evaluations of credit risk processes to determine that credit activities are in compliance with the Bank's credit policies and procedures, credits are authorized within the guidelines established by the Bank's Board of Directors and the quality and value of individual credits are being accurately reported to senior management.

The Bank performs an Account Profitability Analysis ("APA") on its existing facilities at least when such facilities are renewed and often more frequently for important relationships. The methods of profitability analysis used in the APAs include return on funds employed, which intends to measure returns on risk asset taking into consideration the capital charge of the risk asset.

As part of its loan portfolio management, the Bank closely monitors past due accounts and their developments. On a monthly basis, the Loan Portfolio Monitoring Unit prepares an Aging of Past Due report, which contains the principal past dues outstanding on a per account basis, the aging of the past due and the latest status of the account. On a weekly basis, newly booked past due accounts and potential past due accounts are presented to the Bank's Executive Committee for proactive management of the account. Unfavorable information and developments on a borrower or business environment are immediately processed for the purpose of instituting early remedial measures and renewed relationship strategies. The Bank's RMD provides assistance in handling problem and potential problem accounts, while directly managing those with exposures above ₱5.0 million.

The Bank policies provide for stress testing to determine the potential for extreme conditions to affect both individual credits and the sectors of the credit portfolios. The three areas of focus for stress testing are: (a) economic or industry down-turns, (b) market-risk events, and (c) liquidity conditions. Stress-test analyses also include contingency plans regarding the actions management may take given certain scenarios, such as hedging against outcome or reducing the size of the portfolio. Credit Risk Officers and Risk Managers document and report to the Board of Directors the output of the tests. The Bank has also has implemented an ongoing Loan Portfolio Rationalization Program which initiates strategies and repayment plans for accounts which have been identified for phase-out or phase-down. Compliance and status of these accounts are monitored and reported to senior management on a quarterly basis.

Market Risk Management

The Bank considers market risk as risk resulting from adverse movements in the level or volatility of market rates or prices or commodity/equity prices which will affect the Bank's financial condition. The primary determinant of market risk is the volatility of the relevant market for a business line. The market risks of the bank are: (a) foreign exchange rates, (b) interest rates, (c) equity prices, and (d) commodity prices.

To manage market risk inherent in the Bank's portfolio, three related measures of risk values are estimated or established:

- The sensitivity of the position or portfolio to a movement in the market risk factor to which it is exposed;
- The volatility of the position (the maximum expected movement in the market risk factor for a given time horizon at a specified level of confidence); and
- The value-at-risk (the likely impact on earnings for a given time horizon due to expected movements in the market factors).

All risk-taking activities of the Bank are subject to approved limits. In general, market risks are measured by the VaR or Earning at Risk ("EaR") models, for which a maximum exposure for the Bank is recommended to the Risk Management Committee and approved by the Board of Directors. As a matter of policy, all positions classified as "trading" (non-accrual or non-banking) are managed daily on a marked-to-market basis, even when legal and regulatory procedures do not require a marked-to-market profit and loss.

The Bank's market risk limits primarily include the following:

- VaR Limits—establish the monetary amount of risk (potential loss) deemed tolerable by management for open risk positions from the Bank's daily risk-taking activities. VaR limits are the Bank's primary measure of market risk in trading activities. VaR is calculated daily from open risk positions and compared against approved VaR limits. VaR limits must be supported by unit heads, recommended to the Risk Management Committee at least annually;
- EaR Limits—establish the monetary amount of risk (potential loss) deemed tolerable by management for the accrual portfolios (the interest rate re-pricing gaps). EaR limits are the Bank's primary measure of market risk in the accrual portfolios. EaR is calculated daily from interest rate gap positions and compared against approved EaR limits. EaR limits are supported by unit heads recommended to the Risk Management Committee and approved by the Board of Directors at least annually;
- Stop Loss Limits—place a ceiling on the maximum monetary amount for market-related losses for a specified time period (monthly, quarterly and yearly) that management deems acceptable for the Bank. If a Stop Loss Limit is reached or exceeded for a given time period, all open risk positions must be closed and further risk-taking activities of a unit must cease. Stop Loss Limits are based on a percentage of budgeted profits for each risk-taking unit's trading activities for a given year;
- MATs—place a ceiling on accumulated marked-to-market losses that management deems tolerable for a specified time period (normally monthly). When a MAT level is reached or exceeded, risk-takers must consult with management which will approve a course of action for managing the loss. MATs are

approved for each portfolio category (regular and FCDU balance sheets, proprietary trading in foreign exchange money markets, securities, equities and derivatives exposures). MATs are independently monitored and reported by the CRISMS and Compliance Departments; and

- Nominal Position Limits—establish the maximum size of open risk positions that can be held within a set time period for each market risk exposure of the Bank. Nominal Position Limits are divided into overnight position limits (controlling the maximum size of portfolios or open risk positions that can be held overnight) and intra-day limits (controlling the maximum position sizes that can be held prior to an overnight cut-off time). All Nominal Position Limits must conform to the regulatory limits set by the BSP.

The Bank uses stress testing that is both quantitative and qualitative in nature to determine the earnings impact of market movements deemed "extreme" (beyond normal occurrence). All assumptions and results of stress tests must be documented and routinely reported to the Risk Management Committee. The Bank's stress testing techniques include:

- Simple Sensitivity Tests—determine the impact on income of movements of one or more market risk factors using set percentage changes;
- Scenario Analysis—describes scenarios (based on historical or hypothetical scenarios) that the Bank's risk managers deem may happen in the foreseeable future and the consequences thereof; and
- Maximum Loss Approach—uses a combination of events that risk managers believe would be most damaging to the Bank's portfolio.

Foreign Currency Risk Management

The BSP has numerous regulations related to foreign currency management. The Bank complies with all of these, including limits on foreign currency exposures, liquidity reserves and types of currencies allowed for trading.

The Bank's risk measurement system incorporates risk factors for each different foreign currency in which the Bank's positions are determined. Foreign exchange positions are generally classified as trading positions and are marked-to-market. Foreign exchange forwards are classified at inception as either "trading" (outright open positions without an offsetting foreign exchange contract) or "hedging" (positions with an offsetting foreign exchange contract, generally part of a foreign exchange swap transaction). Each classification has a separate profit and loss accounting methodology assigned: net present value mark-to-market for trading positions and straight-line allocation for hedging positions.

In addition, the Bank regularly calculates VaR for each currency position. As of 31 December 2006 and 30 September 2007, the Bank's foreign currency VaR was ₱11.0 million and ₱18.2 million. A system of loss limits and MAT is utilized to control losses. Foreign exchange related products are also discussed and pricing policies set by the ALCO.

The Bank's Treasurer has the widest responsibility over the Bank's foreign exchange risk and can rebalance the allocation of foreign exchange risks among specific currencies and strategies according to the overall nature of foreign exchange exposures approved by management.

Operations Risk Management

Operations Risk is the risk arising from the potential that inadequate information systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud or unforeseen catastrophes will result in unexpected loss. Operations risk includes the risk of loss arising from various types of human or technical error, the risk of settlement or payments failures, the risk of business interruption, administrative and legal risks and the risk arising from systems not performing adequately.

The Bank maintains departmental operations manuals that are periodically updated. The Bank has also developed a Business Contingency Plan which is tested at least annually and updated for any major changes in systems procedures. A complaints log, which is reviewed by management, exists for each business area for logging, monitoring and follow-up on customer complaints.

Transactions and items of value are subject to a system of dual control whereby the work of one person is verified by a second person to ensure that the transaction is properly authorized, recorded and settled.

The Bank places emphasis on the security of its computer system and has a comprehensive IT security policy. The Bank designates a security administrator independent of the front office who is responsible for maintaining strict control over user access privileges to the Bank's information systems. The Bank's ITG has also created a disaster recovery plan to cover the recovery of critical data and contingency processing requirements in the event of a disaster.

Operational Controls and Procedures in Branches

The Bank employs several operational control measures and procedures to mitigate risks in its branches. These include the segregation of duties such that no individual has complete authority and responsibility for handling all phases of any transaction. An Approval Authorities Manual has been issued to identify approving authorities and approval limits of officers in the bank. The necessary review and scrutiny of a transaction must be performed by an authorized associate of a branch/operating unit before proceeding with the processing of transactions. In addition, the use of Bank's operations system is limited to authorized employees.

The Bank also has security policies and procedures which are currently being implemented for the purpose of attaining safety and security of both the Bank and its personnel. These include: (a) personnel security, with the objective of ensuring that employees of the bank are capable, reliable, trustworthy and loyal, in consonance with the Bank's hiring policies, and to provide guidelines with the screening and training of agency personnel to become more effective in their duties; (b) documents and information security, with the objective of determining the security to be applied to the hardware/software of the Bank depending on its classification such as critical, confidential, internal use and unclassified; (c) information and system availability to ensure that a system or process is in place for identifying those assets that would severely affect the operation of the Bank if they become unavailable; and (d) physical security, which includes structural barriers such as fences, lights, doors, windows, vault walls and doors. The operations of branches are governed by policy guidelines and detailed procedures that are formulated to guide the officers and staff in the process of initiating day to day banking transactions.

Operational Controls and Procedures for the RCBC Enterprise Banking Internet Facility and RCBC Payment Gateway

To enroll in the RCBC Enterprise Banking Internet Facility and RCBC Payment Gateway, corporate and commercial clients are required to sign a service agreement and submit a Board resolution or Secretary's Certificate. After verification of this documentation, the designated Bank back office unit will enroll the customer and the customer's designated security administrators will receive their password via e-mail. Upon receipt of the e-mail, the designated security administrators can create profiles for users within the company and set-up the approval workflow. Any amendments to the enrollment parameters, such as enrolled accounts, should be made by the customer in writing and duly-signed by the customer's authorized signatories.

Aside from the basic banking services, corporate and commercial clients can also use other value-added services, such as check writing and payroll, through the RCBC Enterprise Banking Internet Facility. Corporate and commercial clients are required to sign separate service agreements for these services. For selected transactions, such as fund transfer or payments via credit to other bank accounts, BSP-prescribed documents may be required before the transactions are fulfilled.

Operational Controls and Procedures in Treasury

The Bank has implemented pre-trade control policies and procedures, which include ensuring that: (a) dealers are aware of established dealing conventions, (b) operating systems have been tested and approved for production, (c) the necessary authorities have approved dealing limits, and (d) counterparties are identified and validated and required documentation is in place.

The Bank's front office treasury policies and controls include ensuring that delegated authority is issued to each dealer, reconciling dealers' positions against the Bank's accounting records, monitoring credit exposure and market risk limits, entering trades and transactions into the system in a timely and accurate manner and checking dealing system information on a spot basis. FMG's Operations Department reviews trade information on the dealing screens and telex logs to ensure that deals are recorded and input properly. The above-mentioned Operations Department also has the responsibility of investigating and resolving inconsistencies in the confirmation process.

Positions in securities and related futures and options are to be reported to ALCO on a trade date basis for each issue, issuer, industry, rating category and country of issuer. These positions are compared to the approved limits. The age of securities positions is monitored on a first in/first out basis from the trade inception. Because of differing valuation standards, the Bank places controls on internal transfers of securities from their accounts at inception to other classifications.

Non-standard transactions, transactions which are not booked routinely in the back office systems, are subject to special procedures. A business unit head of a unit entering the transaction must verify that all back-office systems required to book, value and measure exposure of the transaction are in place or can be developed in a timely manner.

FMG's Operations Department undertakes the settlement of funds and securities and follows procedures and controls designed to minimize operational risk, including procedures concerning confirmation matching of payments from counterparties, dealing with confirmation exceptions and reporting settlement exposures and payment failures. FMG's Operations Department reports all projected settlement exposures as well as any payment failures to the credit officers in charge of the counterparty or customer relationship.

In addition, the Bank has implemented operational control policies for accounting and financial control to ensure that transactions are properly recorded in the balance sheet and income statement. These include reconciliation of treasury accounts with the general ledger of the Financial Management System. There is an independent regular mark-to-market process that values portfolio positions at current prices/levels that are provided through live price feed of Reuters or Bloomberg and from other independent third party sources. These generate the estimated mark-to-market of the investments portfolios or positions independent of the front and back office.

Internal Audit

The Bank's internal audit function is performed by its Internal Audit Unit and overseen by its Audit Committee and is conducted pursuant to an audit plan. The Internal Audit Unit undertakes a comprehensive audit of all business groups and other functions. The Internal Audit Unit performs a financial audit every quarter and undertakes a risk-based audit of all business and operating units on a twelve to twenty-four months cycle depending on the unit's risk score. Various components of IT from applications to databases, networks and operating systems are covered under the annual audit plan. The Bank's audit plan is approved by the Audit Committee and the Board of Directors. Pursuant to BSP regulations, banks in the Philippines are required to constitute an audit committee comprised of at least two independent directors. The Bank's Audit Committee provides guidance and oversees the responsibilities of the internal and external audits of the organization and provides an independent line of reporting for the internal audit function. As of 31 December 2007, the Bank's Audit Committee included three independent directors, Teodoro Q. Peña, Armando Medina, Roberto de Ocampo.

Anti-Money Laundering Controls

The Anti-Money Laundering Act was passed in September 2001 and was amended in March 2003. Under the Anti-Money Laundering Act, as amended, the Bank is required to submit "Covered Transaction Reports" involving single transactions in cash or other equivalent monetary instruments in excess of ₱500,000 within one Banking Day. The Bank is also required to submit "Suspicious Transaction Reports" to the Anti-Money Laundering Council of the BSP in the event that there are reasonable grounds to believe that any amounts processed are the proceeds of money-laundering activities. The Bank is required to establish and record the identities of its clients based on official documents. In addition, all records of transactions are required to be maintained and stored for five years from the date of the transaction. Records of closed accounts must also be kept for five years after their closure.

Under BSP Circular No. 279 dated 2 April 2001, within 20 Banking Days after the end of each financial year, the Bank is required to submit to the BSP a certificate signed by the President and the Chief Compliance Officer stating that they have monitored compliance and that the Bank is complying with the anti-money laundering rules and regulations.

In an effort to further prevent money laundering activities, the Bank has adopted Know Your Customer policies and guidelines. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account may be opened. Each business unit is also required to monitor account activities to determine whether transactions conform to the normal or expected transactions for a customer or an account. For a high-net worth individual whose source of funds is unclear a more extensive due diligence is required. Decisions to enter into a business relationship with a higher risk customer, such as a politically exposed person or a private individual holding a prominent position, are made exclusively at the senior management level.

The Bank's procedures for compliance with the Anti-Money Laundering Act are set out in its Anti-Money Laundering Policy Manual. The Bank's Compliance Office monitors compliance and conducts compliance-testing of business units.

The Bank's Anti-Money Laundering Committee evaluates suspicious transaction reports submitted by branches for final determination if the suspicions are based on reasonable grounds and are therefore reportable to the Anti-Money Laundering Council. All banking groups are required to submit to the Compliance Office certificates of compliance with the Anti-Money Laundering Rules & Regulations on a quarterly basis.

Legal Risk Management

Changes in laws and regulations could adversely affect the Bank. In addition, the Bank faces legal risks in enforcing its rights under its loan agreements, such as foreclosing on collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Bank uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Bank seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized and consulting internal and external legal advisors.

Regulatory Risk Management

Regulatory risk refers to the potential for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of a country. The Bank's Compliance Program, the implementation of which is overseen and coordinated by the Compliance Office, is the primary control process for regulatory risk issues. The Compliance Office is responsible for communicating and disseminating new rules and regulations to all units, analyzing and addressing compliance issues, performing periodic compliance testing on branches and Head Office units, and reporting compliance findings to the Audit Committee and the Board of Directors. On a case by case basis, when the Audit Committee is not immediately available, the Compliance Officer may initially report urgent matters to the President/Chief Operating Officer or the Chief Executive Officer, and thereafter to the Audit Committee.

PROCEDURE

Method of Distribution

The Notes are being issued pursuant to an approval by the BSP dated 30 January 2008 and subject to the terms and conditions of the Master Note, as well as BSP Circular No. 280 (2001) and BSP Memorandum to All Banks and Non-Bank Financial Institutions, dated 17 February 2003, as may be amended.

The Notes are being issued by the Bank with (a) HSBC and ING as Joint Lead Arrangers, Selling Agents, and Market Makers, (b) the Bank as Limited Selling Agent, (c) Multinational Investment Bancorporation as Selling Agent and Market Maker, (d) Philippine Depository & Trust Corp. as Registrar and Paying Agent, and (e) The Trust Department of HSBC as Public Trustee.

No action has been or will be taken by the Bank or the Joint Lead Arrangers in any jurisdiction (other than the Philippines), that would permit a public offering of any of the Notes, or possession or distribution of this Offering Circular, or any amendment or supplement thereto issued in connection with the offering of the 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 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 Notes during the Offer Period

Prospective Noteholders may purchase the Notes during the Offer Period by submitting fully and duly accomplished Applications to Purchase the Notes (the "Applications"), in quadruplicate together with all the required attachments and the corresponding payments to the Selling Agents or the Limited Selling Agent, as the case may be, 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 time or without the required attachments will be rejected. Only Applications that are accompanied by check payments or covered by appropriate debit instructions made out to the order of "RCBC Tier 2 Notes Offering" covering the entire purchase price shall be accepted by the Selling Agents or the Limited Selling Agent, as the case may be.

If the prospective Noteholder is an individual, the following documents must also be submitted:

- Photocopies of any two valid identification cards ("ID"), at least one of which is that of the prospective Noteholder's passport, driver's license, Social Security System ID, Government Service Insurance System ID, or such other ID and documents as may be required by or acceptable to the Registrar and/or the Selling Agent concerned;
- Two (2) fully executed signature cards in the form attached to the application; and
- 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 prospective Noteholder is a corporation, partnership, trust, association, or institution, the following documents must also be submitted:

- Philippine 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;
- 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 Notes and specifying the authorized signatories; and
- 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:

- Certified true copy of the original tax exemption certificate, ruling or opinion issued by the BIR on file with the prospective Noteholder as certified by its duly authorized officer;
- Original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status, undertaking to immediately notify the Bank and the Registrar and Paying Agent of any

suspension or revocation of its tax exempt status and agreeing to indemnify and hold the Bank 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

- Such other documentary requirements as may be required by the Registrar as proof of the prospective Noteholder's tax-exempt status.

The Selling Agents or the Limited Selling Agent, as the case may be, may require the submission of other documents for purposes of confirming matters in conformity with relevant regulations or policies.

Allocation and Issue of the Notes

Applications to Purchase the Notes shall be subject to the availability of the Notes and acceptance by the Bank. The Joint Lead Arrangers, in consultation with the Bank, reserve the right to accept, reject, scale down, or reallocate any Application.

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 or the Limited Selling Agent, as the case may be. On the Issue Date, the Selling Agents or the Limited Selling Agent, as the case may be, shall, on behalf of the Bank, 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 Bank and the relevant prospective Noteholder.

Upon confirmation by the Bank of acceptance of the relevant Applications and the respective amount of Notes, the Selling Agents or the Limited Selling Agent, as the case may be, shall issue copies of the relevant purchase advice (the "Purchase Advice") to successful prospective Noteholders confirming the acceptances of their offers to purchase the Notes and consequent ownership thereof and stating the pertinent details including the amount accepted, with copies furnished 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. 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 in accordance with the terms of the Registry and Paying Agency Agreement.

Transactions in the Secondary Market

All secondary trading of the 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 and/or payment of fees in connection with trading on PDEx, as applicable, and payment of fees to the Registrar. 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 an Interest Payment Date or Principal Payment Date, inclusive. The Registrar shall register any transfer of the Notes upon presentation to it of the following documents in form and substance acceptable to it:

- The transferor Noteholder's Letter of Authority to Sell;
- Letter Instruction of the Market Maker;
- The relevant Purchase Advice of the transferee Noteholder (with the information provided therein duly set forth in typewritten form);
- Duly accomplished Investor Registration Form of the transferee Noteholder as prescribed by the Registrar (in case of a new holder);
- Proof of the qualified tax-exempt status of the transferee Noteholder, 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 transferee Noteholder and such other original or certified true copies of other documents submitted by the transferee Noteholder in support of the transfer or assignment of the Notes in its favour;

- 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 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 Dates, the Registrar shall, upon receipt of the corresponding funds from the Bank, make available to the Noteholders the amounts net of taxes and fees (if any) by way of direct credits to the bank accounts identified by the Noteholders in the Purchase Advice.

PHILIPPINE BANKING INDUSTRY

The banking industry in the Philippines is composed of universal banks, commercial banks, thrift banks (comprising savings and mortgage banks, private development banks, stock savings and loan associations, and micro-finance), rural banks, and cooperative banks.

As of 30 September 2007, the banking sector consisted of 38 universal and commercial banks, of which there were 17 universal banks and 21 commercial banks. Of the 17 universal banks, 11 are private domestic banks, three are branches of foreign banks, and three are government-controlled banks. Of the 21 commercial banks, seven are private domestic banks, three are subsidiaries of foreign banks, and 11 are branches of foreign banks.

Commercial banks have all the general powers incident to corporations, and in addition, have all such powers as may be necessary to carry on the business of commercial banking, such as the powers to accept drafts and to issue letters of credit, to discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, to accept and create demand deposits, to receive other types of deposits and deposit substitutes, to buy and sell foreign exchange and gold and silver bullion, to acquire marketable bonds and other debt securities and to lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses and invest in the equity of business not related to banking. 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.

Thrift banks primarily accumulate the savings of depositors and invest them, together with their capital, in secured or unsecured loans, or in financing for home building and home development, in readily marketable debt securities, in commercial paper and accounts receivable, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium- and long-term financing for businesses engaged in agriculture, services, industry, housing and other financial and allied services for its chosen market and constituencies, especially for SMEs and individuals. As at 30 September 2007, there were 82 thrift banks in the Philippines.

Rural banks are organized primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As of 30 September 2007, there were 732 rural and cooperative banks.

Specialized government banks are organized to serve a particular purpose. The existing specialized banks are the Development Bank of the Philippines ("DBP"), Land Bank of the Philippines ("LBP"), and AI-Amanah Islamic Investment Bank of the Philippines ("AAIIB"). DBP was organized primarily to provide banking services catering to the medium- and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for SMEs. LBP primarily provides financial support in all phases of the Philippines' agrarian reform program. In addition to their special functions, DBP and LBP are allowed to operate as universal banks. AAIIB was organized to promote and accelerate the socio-economic development of the Autonomous Region of Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings.

During the past decade, the Philippine banking industry has been marked by two major trends—the liberalization of the industry, and mergers and consolidation.

Foreign bank entry was liberalized in 1994, enabling foreign banks to invest in up to 60.0% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of ten new foreign bank branches in 1995. The General Banking Law further liberalized the industry by providing that the Monetary Board may authorize foreign banks to acquire up to 100.0% of the voting stock of one domestic bank. Under the General Banking Law, any foreign bank, which prior to the effectiveness of the said law availed itself of the privilege to acquire up to 60.0% of the voting stock of a domestic bank, may further acquire voting shares of such bank to the extent necessary for it to own 100.0% thereof. As of 30 September 2007, there were 14 foreign banks with branches and three foreign banks with subsidiaries in the Philippines, accounting for 18.0% of the total resources of the Philippine banking system.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. To encourage this trend, the BSP offered various incentives to merging or consolidating banks. Based on BSP data, since the new package of incentives took effect in September 1998, there have been 32 mergers, acquisitions, and consolidations of banks. In addition, in December 2006, the shareholders of Banco de Oro Universal Bank and Equitable PCI Bank approved a merger of the two banks that will leave Banco de Oro as the surviving entity. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to the overall competition levels since market share remained relatively well dispersed among the remaining players.

Competition

The Bank faces competition from both domestic and foreign banks, in part, as a result of the liberalization of the banking industry by the Government. Since 1994, a number of foreign banks, which have greater financial resources than the Bank, have been granted licenses to operate in the Philippines. Such foreign banks have generally focused their operations on the larger corporations and selected consumer finance products, such as credit cards. The foreign banks have not only increased competition in the corporate market, but have as a result caused more domestic banks to focus on the commercial middle-market, placing pressure on margins in both markets.

In the domestic market, prior to 2000, many banks expanded their networks to tap low-cost retail deposits following the relaxation of restrictions on branch banking. As a result, the Philippine banking market is relatively fragmented by comparison with other Asian countries, with the top ten banks accounting for approximately 74.4% of total assets of commercial banks as of 30 September 2007. Since September 1998, the BSP has been encouraging 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.

In addition, certain factors arising from the economic downturn are expected to result in greater competition and therefore exert downward pressure on margins. Since 2000, banks instituted more restrictive lending policies as they focused on asset quality and tried to reduce their exposure to NPLs, increasing liquidity. As the Philippine economy recovers from the economic downturn and banks begin to apply such liquidity in the lending market, greater competition for corporate, commercial and consumer loans may arise.

BANKING REGULATION AND SUPERVISION

Banking Regulation and Supervision

The New Central Bank Act (Republic Act No. 7653) and the General Banking Law of 2000 (Republic Act No. 8791) vest the Monetary Board 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, cooperative 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 certain other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board. Subsidiaries and affiliates of banks may likewise be subjected to examination by the BSP.

The BSP Manual is the principal source of rules and regulations to be complied with and observed 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 program, and trust and other fiduciary functions, of the relevant financial intermediary. Supplementing the Manual are rules and regulations promulgated in various circulars, memoranda, letters, and other directives issued by the Monetary Board.

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 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% 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. Subject to existing regulations, financial intermediaries are also allowed to a certain extent to invest in allied (both financial and non-financial) or non-allied undertakings, or both.

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 thrift 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 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 from time to time. Currently, the BSP requires only minimum capital accounts of ₱5.4 billion for universal banks, ₱2.4 billion for commercial banks, and ₱325.0 million for thrift banks with head office in Metro Manila.

For 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 lower figure of the investment of the bank or the reciprocal investment of the other bank or enterprise should be used; and (f) in the case of rural banks, the Government counterpart equity, except those arising from conversion of arrears under the Rehabilitation Program.

Capital Adequacy Requirements

In July 2001, the Philippines adopted the capital adequacy framework of the Basel Committee on Banking Supervision or Basel 1. 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. 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 collateralized 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) claims on or portions of claims guaranteed by or collateralized by securities issued by multilateral development banks; (d) loans to the extent covered by hold-outs on, or assignment of, deposits or deposit substitutes maintained with the lending bank; (e) loans or acceptances under letters of credit ("LCs") to the extent covered by margin deposits; (f) portions of special time deposit loans covered by Industrial Guarantee and Loan Fund guarantees; (g) real estate mortgage loans to the extent guaranteed by the Home Guaranty Corporation; (h) loans to the extent guaranteed by the Trade and Investment Development Corporation of the Philippines; (i) loans to exporters to the extent guaranteed by the Guarantee Fund for Small and Medium Enterprises (the "GFSME") outstanding as at the effective date of the merger of the Small Business Guarantee and Finance Corporation and the GFSME; (j) foreign currency notes and coins on hand acceptable as international reserves; and (k) gold bullion held either in its own vaults, or in another's vault on an allocated basis, to the extent offset by gold bullion liabilities.

The BSP issued a Memorandum to All Banks on 13 December 2004, mandating commercial and universal banks to comply with the Basel Committee on Banking Supervision's Revised International Convergence of Capital Management and Capital Standards, or Basel II, by 2007.

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 11.0% against demand and savings deposits, negotiable order of withdrawal accounts, time deposits, deposit substitutes, interbank call loans, and bonds.

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 from time to time. As of 31 December 2006, 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 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 securities and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally recognized 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 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.

Foreign Currency Deposit System

An 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 may be authorized to operate an expanded FCDU. Thrift banks with a net worth or combined capital accounts of at least ₱650 million if they are located in Metro Manila, and ₱150.0 million if they are located outside Metro Manila, may be authorized to operate an FCDU. 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 their foreign correspondent banks, and 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 (c) engage in securities lending activities subject to certain conditions. FCDUs are required to maintain 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 to verify that 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 Program", 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 subdivision 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 unsecured 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, 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 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.

Republic Act No. 8289 provides that until August 2007, banks are required to set aside at least 6.0% of their total loan portfolio for small enterprises and 2.0% for medium-sized enterprises, 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 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 the Barangay Micro Business Enterprises ("BMBEs") Act (Republic Act 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 law on reservation of funds for the agricultural sector and SMEs.

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 disqualified by the Monetary Board; (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 willfully 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 permitted by the Monetary Board, 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 the DOSRI's paid-in capital investment 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 loans, other credit accommodations, and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit accommodations, and guarantees every week.

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 installments, banking regulations consider the total outstanding obligation past due in accordance with the following schedule:

	Minimum number of installments in arrears
Mode of payment	
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 installments in arrears.

BSP regulations allow loans and advances to be written off as bad debts only if they can be justified to be uncollectible. The board of directors of a bank has discretion as to the frequency of write-off provided that these are made against provisions for credit losses or against current operations. The prior approval of the Monetary Board is required to write off loans to the bank's directors, officers, stockholders and their related interests, and for individual loan accounts involving ₱100,000 or more, the prior approval of the appropriate supervising and examination department of the BSP is needed.

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 NPLs, real estate and other assets from financial institutions in order to encourage new lending to support economic growth. The Congress of the Philippines passed the SPV Act's implementing rules and regulations on 19 March 2003, which came into force on 12 April 2003. Under the SPV Act, the original deadline for the creation of asset management companies entitled to tax breaks was 19 September 2004. 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 14 May 2006, the date the amended SPV Act took effect, or on 14 November 2007.

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 Openings

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, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their 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, Paranaque, Pasay, Pasig, and Quezon, and in the municipality of San Juan, Metro Manila. However, branches of microfinance-oriented banks, microfinance-oriented branches of regular banks and branches that will cater primarily to the credit needs of BMBEs duly registered under Republic Act No. 9178 may be established anywhere upon the fulfillment of certain conditions.

Electronic Banking Operations

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refers to systems that enable bank customers to avail themselves of the bank's products and services through a personal computer (using direct modem dial-in, internet access, or both) or a mobile / non-mobile phone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control, and monitor any risks arising from the proposed electronic banking activities.

Private domestic banks with BSP-approved electronic banking facility may accepts payment of fees and other charges of similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all government-owned and controlled corporations. The funds accepted shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of the said government entities.

Anti-Money Laundering Law

The Anti-Money Laundering Act was passed on 29 September 2001 and was amended effective on 23 March 2003. Under its provisions, as amended, (i) certain financial intermediaries including banks, OBUs, 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; (ii) insurance companies and/or institutions regulated by the Insurance Commission; and (iii) securities brokers, dealers, salesmen, investment houses/ companies, mutual funds, CTFs, pre-need companies, foreign exchange corporations, and certain other similar entities regulated by the Philippine SEC, 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 a reasonable ground to believe that any amounts processed are the proceeds of money laundering activities.

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 order any account that is suspected as being used for money laundering to be frozen.

BSP regulations also require all universal and commercial banks in the Philippines to have an electronic money laundering transaction monitoring system in place by October 2006. Each system will be required to detect and bring to the relevant institution's attention all transactions and/or accounts that either qualify as "covered transactions" or "suspicious transactions".

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 five years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

PHILIPPINE TAXATION

The following is a general description of certain Philippine tax aspects of the 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 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 Notes.

Taxation of Interest

The Notes will be treated as deposit substitute instruments. Consequently, interest income earned by individual citizens, resident aliens, and nonresident aliens engaged in trade or business in the Philippines as holders of the unsecured subordinated notes will generally be subject to a 20% final withholding tax. However, the 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 year.

Interest income received by domestic and resident foreign corporations shall be subject to the final withholding tax of 20%. Interest income received by nonresident aliens not engaged in trade or business in the Philippines shall generally be subject to a final withholding tax of 25.0%. Interest income received by non-resident foreign corporations are generally subject to a final withholding tax of 32.0%. 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% final withholding tax provided that effective 1 January 2009, the rate of income tax shall be 30.0%. This rate may also be reduced under an applicable tax treaty. All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, 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, unless such withholding or deduction is required by law.

DST

The issuance of the Notes will be subject to DST 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 DST on the original issuance of the unsecured subordinated notes. No DST is imposed on the secondary transfer of the unsecured subordinated notes.

Taxation on Sale or Other Disposition of 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 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 Notes will be exempt from Philippine income tax.

VAT and GRT

The gross income from the sale or transfer of the Notes in the Philippines by dealers in securities is subject to VAT at the rate of 12% of the gross income. Banks and non-bank financial intermediaries performing quasi-banking functions are subject to GRT as the following rates:

- 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%

- On dividends and equity shares and net income of subsidiaries—Nil

- 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%
- 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 GRT at the following rates:

  On interest, commissions, discounts and all other items treated as gross income under the Tax Code—5.0%

- 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 Notes as part of the estate of a deceased individual to his heirs, whether or not such individual was resident in 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. A holder of such Notes will be subject to donor's tax upon the donation of the 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. The estate tax as well as the donor's tax in respect of the 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.

INDEX TO THE FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REVIEWERS

The Board of Directors and the Stockholders
Rizal Commercial Banking Corporation and Subsidiaries

Introduction

We have reviewed the accompanying unaudited consolidated financial statements of Rizal Commercial Banking Corporation (the "Parent Company") and subsidiaries (together hereinafter referred to as the "Group") which comprise the consolidated statements of condition as of September 30, 2007 and 2006, and the consolidated income statements, consolidated statements of changes in capital funds and consolidated cash flow statements for the nine months then ended, and unaudited notes to consolidated financial statements comprising of a summary of significant accounting policies and other explanatory notes. We did not review the unaudited financial statements as of and for the nine months ended September 30, 2007 and 2006 of the following insignificant subsidiaries included in the consolidation, namely, RCBC California International, Inc., RCBC Telemoney Europe, and RCBC International Finance Limited and its subsidiary, RCBC Investment Ltd.; and, with respect to September 30, 2006 only, New Pacific Resources Management (SPV-AMC), Inc. In addition, we did not review the unaudited financial statements of certain insignificant associates, the investments in which are accounted for in the unaudited consolidated financial statements using the equity method. The management of the Group is responsible for the preparation and fair presentation of these unaudited consolidated financial statements in accordance with Philippine Financial Reporting Standards (PFRS). Our responsibility is to express a conclusion on this unaudited consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Bases for Qualified Conclusion

A. SPV Transactions of the Parent Company

As discussed in Note 9 to the unaudited consolidated financial statements, the Parent Company transferred to certain special purpose vehicles (SPVs) certain nonperforming assets (NPAs) totalling ₱1,699 million during the nine months ended September 30, 2007, ₱3,879 million in year 2006, and ₱7,959 million prior to 2006, in exchange primarily for subordinated/SPV notes and partly for cash under separate "sale and purchase" or "asset sale" agreements pursuant to Republic Act No. 9182 (the SPV Act) and Bangko Sentral ng Pilipinas (BSP) Resolution No. 135. In recording the transfers of the NPAs to the SPVs, the Parent Company derecognized the NPAs from its financial records, but the related allowance for impairment was retained or "freed." In addition, the Parent Company deferred the recognition of the required additional allowance for impairment and the losses as determined on the NPAs transferred, which additional allowance for impairment and losses are being amortized over a period of 10 years in accordance with BSP Resolution No. 135. One of the significant conditions in the terms of the subordinated/SPV notes with certain SPVs is that the amount and timing of payment of the subordinated/SPV notes are dependent on the collections to be made by the SPVs on the NPAs transferred. Under PFRS, this is indicative of an incomplete transfer of the risks and rewards of ownership of the NPAs to the SPVs. PFRS requires that (a) an entity retaining majority of the residual risks and rewards of certain assets of the SPVs should reflect in its financial statements its proportionate interest in such SPVs and (b) an entity should substantially transfer all the risks and rewards of ownership of an asset before such asset could be derecognized. PFRS, likewise, requires the derecognition at the time of transfer of the related allowance for impairment of the NPAs where the risks and rewards of ownership are completely transferred and the full recognition of the required additional allowance for impairment and the losses determined on the NPAs transferred in the period the losses were determined, instead of amortizing it over future periods. The effects of these matters on the Group's unaudited consolidated financial statements are discussed and presented in Notes 9 and 34 to the unaudited consolidated financial statements.

B. Staggered booking of required additional allowance for impairment on credit card receivables

As fully discussed in Note 9, based on BSP Circular No. 398, Bankard Inc. (Bankard), a subsidiary of RCBC Capital Corporation, a wholly owned subsidiary of the Parent Company, obtained BSP approval to stagger over a period of seven years starting in 2004 the booking of the ₱3.6 billion required additional allowance for impairment on its credit card receivables as of December 31, 2003. Of the ₱3.6 billion required additional allowance, Bankard already recognized ₱846.5 million in its books as of September 30, 2006 as follows: ₱180.1 million in 2004, ₱180.1 million in 2005 and ₱486.3 million in 2006. PFRS, however, requires the full recognition of required allowance for impairment against current operations in the period such losses were determined. On December 29, 2006, as mentioned also under Note 9, Bankard sold and transferred to the Parent Company its various credit card receivables totaling ₱7.2 billion under a Deed of Assignment of Receivables. The credit card receivables that were sold and transferred by Bankard to the Parent Company included receivables amounting to ₱2.8 billion which, as approved by the BSP, are provided with allowance for impairment on a staggered basis. After the sale and transfer, the Parent Company booked in 2006 an impairment loss on the credit card receivables transferred amounting to ₱162.1 million and wrote-off the remaining ₱2.6 billion impaired credit card receivables against the "freed" allowance for impairment, instead of against operations, pertaining to the NPAs transferred as discussed in the third paragraph. As discussed in Note 9, the Parent Company requested for BSP confirmation of this transaction and on March 15, 2007 the BSP formally informed the Parent Company that it interposes no objection to the whole transaction. The effects of these matters on the Group's unaudited consolidated financial statements are more fully described and presented in Notes 9 and 34 to the unaudited consolidated financial statements.

C. Derecognition of credit card receivables sold

As discussed in Note 9, the credit card receivables of Bankard, that were sold as of September 30, 2006 to the Parent Company amounting to ₱2,486 million and to other third parties amounting to ₱1,445 million, which receivables Bankard had derecognized, would not have qualified for derecognition under PFRS. Hence, we believe that the receivables sold and the related liability representing the considerations received from the Parent Company and other third parties should have been presented in Bankard's statement of condition as of September 30, 2006 and measured at their respective amortized costs. The effects of this departure from PFRS on the Group's September 30, 2006 unaudited consolidated financial statements are more fully described and presented in Notes 9 and 34.

Qualified Conclusion

Based on our review, with the exception of the matters described in the *Bases for Qualified Conclusion* section of this report, nothing has come to our attention that causes us to believe that the accompanying unaudited consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2007 and 2006, and of its consolidated financial performance and its cash flows for the nine months then ended in accordance with Philippine Financial Reporting Standards.

Emphasis of Matter

This report is intended solely for use of the Parent Company and its joint lead managers, Hongkong and Shanghai Banking Corporation Limited and ING Bank N.V., in connection with the issuance by the Parent Company of subordinated notes eligible as lower tier 2 capital. We disclaim any assumption of responsibility, for any reliance on this review report or on the unaudited consolidated financial statements to which it relates, to any person or parties other than the intended users.

PUNONGBAYAN & ARAULLO

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SEC Accreditation No. 0007-AR-1
BIR NA 08-002511-7-2005 (Dec. 27, 2005 to 2008)

January 14, 2008

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CONDITION
SEPTEMBER 30, 2007 AND 2006
(Amounts in Thousand Philippine Pesos)
(UNAUDITED)

	Notes	2007	2006
RESOURCES			
CASH AND OTHER CASH ITEMS	5	**₱ 3,964,344**	₱ 3,586,989
DUE FROM BANGKO SENTRAL NG PILIPINAS	5	**16,741,215**	9,947,989
DUE FROM OTHER BANKS	5	**3,998,322**	5,532,852
INVESTMENT SECURITIES			
Financial Assets at Fair Value Through Profit or Loss	6	**13,817,678**	11,716,895
Available-for-sale Securities	8	**45,581,701**	43,272,072
LOANS AND RECEIVABLES—Net	9	**112,048,488**	102,260,875
INVESTMENTS IN ASSOCIATES—Net	10	**1,917,228**	2,091,886
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT—Net	11	**3,436,517**	3,409,070
INVESTMENT PROPERTIES—Net	12	**8,067,026**	11,639,567
DEFERRED TAX ASSETS	26	**1,643,198**	1,833,968
OTHER RESOURCES—Net	13	**14,221,320**	10,610,104
TOTAL RESOURCES		**₱225,437,037**	₱205,902,267
LIABILITIES AND CAPITAL FUNDS			
DEPOSIT LIABILITIES	15		
Demand		**₱ 9,714,817**	₱ 9,693,777
Savings		**61,670,965**	56,607,750
Time		**86,525,658**	83,664,480
Total Deposit Liabilities		**157,911,440**	149,966,007
BILLS PAYABLE	16	**16,831,515**	15,147,129
BONDS PAYABLE	17	**6,159,824**	6,846,733
OUTSTANDING ACCEPTANCES PAYABLE		**309,275**	179,537
DUE TO OTHER BANKS		**2,149**	1,656,098
ACCRUED INTEREST, TAXES AND OTHER EXPENSES	18	**2,394,064**	2,222,196
OTHER LIABILITIES	19	**8,489,048**	9,172,288
SUBORDINATED DEBT	20	**5,220,270**	5,403,633
Total Liabilities		**197,317,585**	190,593,621
CAPITAL FUNDS			
Attributable to Parent Company Shareholders:			
Preferred Stock	22	**859,626**	—
Common Stock	22	**9,628,328**	6,329,640
Hybrid Perpetual Securities	23	**4,883,139**	—
Capital Paid in Excess of Par		**5,571,720**	2,118,688
Revaluation Reserves on Available-for-sale Securities	8	**538,107**	1,647,992
Accumulated Translation Adjustments		**130,524**	150,892
Reserve for Trust Business	27	**255,545**	243,932
Share in Additional Paid-in Capital of an Associate		**532,583**	532,583
Surplus	2, 22	**6,045,028**	4,557,831
		28,444,600	15,581,558
Minority Interest		**(325,148)**	(272,912)
Total Capital Funds		**28,119,452**	15,308,646
TOTAL LIABILITIES AND CAPITAL FUNDS		**₱225,437,037**	₱205,902,267

See Notes to Consolidated Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(Amounts in Thousand Philippine Pesos, Except Per Share Data)
(UNAUDITED)

	Notes	2007	2006
INTEREST INCOME ON			
Loans and receivables	9	**₱ 7,270,069**	₱ 7,052,579
Investment securities	7, 8	**3,693,657**	3,829,750
Others		**493,955**	206,113
		11,457,681	11,088,442
INTEREST EXPENSE ON			
Deposit liabilities	15	**3,015,141**	3,748,231
Bills payable and other borrowings	16	**1,889,043**	1,597,604
		4,904,184	5,345,835
NET INTEREST INCOME		**6,553,497**	5,742,607
IMPAIRMENT LOSSES	9, 14	**1,225,533**	1,438,980
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**5,327,964**	4,303,627
OTHER OPERATING INCOME			
Trading and securities gain—net	7	**1,288,756**	823,805
Foreign exchange gains (losses)—net		**141,145**	(190,244)
Trust fees		**130,632**	207,937
Commissions and other income	6	**1,970,424**	1,570,244
		3,530,957	2,411,742
OTHER OPERATING EXPENSES			
Employee benefits	24	**1,814,351**	1,673,349
Occupancy and equipment-related	25	**1,048,273**	964,488
Taxes and licenses		**777,685**	761,607
Depreciation and amortization	11	**237,686**	246,430
Miscellaneous	9	**1,957,688**	1,707,673
		5,835,683	5,353,547
INCOME BEFORE TAX		**3,023,238**	1,361,822
TAX EXPENSE	26	**484,061**	359,198
NET INCOME		**2,539,177**	1,002,624
NET INCOME (LOSS) ATTRIBUTABLE TO MINORITY INTEREST		**17,053**	(156,190)
NET INCOME ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS		**₱ 2,522,124**	₱ 1,158,814
Earnings Per Share*	30		
Basic		**₱ 2.38**	₱ 1.83
Diluted		**₱ 2.30**	₱ 1.83

* After giving retroactive effect to the 15% stock dividends (see Note 22).

See Notes to Consolidated Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(Amounts in Thousand Philippine Pesos)
(UNAUDITED)

	Notes	2007	2006
ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS			
PREFERRED STOCK			
Balance at beginning of period		**₱ 1,054,940**	₱ —
Conversion of preferred stock to common stock	22	**(195,314)**	—
Balance at end of period		**859,626**	—
COMMON STOCK			
Balance at beginning of period		**6,329,640**	6,329,640
Issuance of common stock		**2,100,000**	—
Stock dividends		**1,094,131**	—
Conversion of preferred stock to common stock	22	**104,557**	—
Balance at end of period		**9,628,328**	6,329,640
HYBRID PERPETUAL SECURITIES	23	**4,883,139**	—
CAPITAL PAID IN EXCESS OF PAR			
Balance at beginning of period		**2,118,688**	2,118,688
Issuance of common stock		**3,362,275**	—
Conversion of preferred stock to common stock	22	**90,757**	—
Balance at end of period		**5,571,720**	2,118,688
REVALUATION RESERVES ON AVAILABLE-FOR-SALE SECURITIES			
Balance at beginning of period		**2,914,662**	39,570
Fair value gains (losses) on available-for-sale securities, net of tax	8	**(2,376,555)**	1,608,422
Balance at end of period		**538,107**	1,647,992
ACCUMULATED TRANSLATION ADJUSTMENTS			
Balance at beginning of period		**144,572**	163,360
Translation adjustment during the period		**(14,048)**	(12,468)
Balance at end of period		**130,524**	150,892
RESERVE FOR TRUST BUSINESS			
Balance at beginning of period		**247,595**	223,774
Transfer from surplus		**7,950**	20,158
Balance at end of period		**255,545**	243,932
SHARE IN ADDITIONAL PAID-IN CAPITAL OF AN ASSOCIATE		**532,583**	532,583
SURPLUS			
Balance at beginning of period			
As previously stated		**5,447,992**	3,793,639
Prior period adjustments	9, 26	**—**	(374,464)
As restated		**5,447,992**	3,419,175
Net income		**2,522,124**	1,158,814
Stock dividends		**(1,094,131)**	—
Cash dividends	22	**(823,007)**	—
Transfer to reserve for trust business	27	**(7,950)**	(20,158)
Balance at end of period		**6,045,028**	4,557,831
ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS *(Carried Forward)*		**₱28,444,600**	₱15,581,558

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL FUNDS—(Continued)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(Amounts in Thousand Philippine Pesos)
(UNAUDITED)

	Notes	2007	2006
ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS			
(Brought Forward)		**₱28,444,600**	₱15,581,558
MINORITY INTEREST			
Balance at beginning of period			
As previously stated		**(283,001)**	24,726
Prior period adjustments	9, 26	**—**	(141,754)
As restated		**(283,001)**	(117,028)
Fair value gains (losses) on available-for-sale securities, net of tax	8	**(59,200)**	306
Net income (loss) for the period		**17,053**	(156,190)
Balance at end of period		**(325,148)**	(272,912)
TOTAL CAPITAL FUNDS		**₱28,119,452**	₱15,308,646
Net Gains (Losses) Directly Recognized in Capital Funds		**₱ (2,435,755)**	₱ 1,608,728

See Notes to Consolidated Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(Amounts in Thousand Philippine Pesos)
(UNAUDITED)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	**₱ 3,023,238**	₱ 1,361,822
Adjustments for:		
Impairment losses	**1,225,533**	1,438,980
Amortization of deferred charges	**365,667**	260,308
Depreciation and amortization	**237,686**	246,430
Fair value gains on financial assets	**(259,352)**	(213,385)
Equity in net earnings of associates	**(149,174)**	(169,966)
Operating income before working capital changes	**4,443,598**	2,924,189
Increase in financial assets at fair value through profit and loss	**(2,468,999)**	(4,155,007)
Increase in loans and receivables	**(4,340,593)**	(3,448,099)
Decrease (increase) in investment property	**1,917,831**	(106,502)
Increase in other resources	**(2,407,730)**	4,433
Increase in deposit liabilities	**361,271**	16,685,772
Increase (decrease) in outstanding acceptances payable	**75,278**	(95,810)
Increase (decrease) in due to other banks	**(3,393,766)**	1,645,401
Decrease in accrued taxes, interest and other expenses	**(288,885)**	(257,799)
Increase in other liabilities	**1,912,980**	1,249,657
Cash generated from (used in) operations	**(4,189,015)**	14,446,235
Cash paid for taxes	**(448,571)**	(359,438)
Net Cash From (Used in) Operating Activities	**(4,637,586)**	14,086,797
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of bank premises, furniture, fixtures and equipment	**(344,735)**	(356,760)
Cash dividends received	**106,046**	147,652
Proceeds from disposals of bank premises, furniture, fixtures and equipment	**58,071**	165,793
Increase in available-for-sale securities	**(937,544)**	(6,919,487)
Decrease in investments in associates	**175,495**	4,043
Net Cash Used in Investing Activities	**(942,667)**	(6,958,759)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares	**5,462,275**	—
Dividends paid	**(823,007)**	—
Proceed from (payments of) bills payable	**(802,480)**	291,799
Net Cash From Financing Activities	**3,836,788**	291,799
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,743,465)**	7,419,837
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**5,596,912**	5,389,129
Due from Bangko Sentral ng Pilipinas	**13,787,927**	3,032,805
Due from other banks	**7,062,507**	3,226,059
	26,447,346	11,647,993
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**3,964,344**	3,586,989
Due from Bangko Sentral ng Pilipinas	**16,741,215**	9,947,989
Due from other banks	**3,998,322**	5,532,852
	₱24,703,881	₱19,067,830

See Notes to Consolidated Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 and 2006
(Amounts in Thousand Philippine Pesos, Except Per Share Data)
(UNAUDITED)

1. CORPORATE INFORMATION

Rizal Commercial Banking Corporation (the "Parent Company") holds interest in the following subsidiaries and associates.

Subsidiaries/Associates	Country of Incorporation	Explanatory Notes	Effective Percentage of Ownership 2007	2006
Subsidiaries:				
RCBC Savings Bank, Inc. (RSB)	Philippines		100.00	100.00
RCBC Forex Brokers Corporation (RCBC Forex)	Philippines		100.00	100.00
RCBC Telemoney Europe	Italy		100.00	100.00
RCBC California International, Inc. (RCBC California)	California, USA	(a)	100.00	100.00
RCBC International Finance Limited (RCBC IFL)	Hongkong		99.99	99.99
RCBC Investment Ltd.	Hongkong	(b)	100.00	100.00
RCBC Capital Corporation (RCBC Capital)	Philippines	(c)	99.91	99. 91
RCBC Securities, Inc. (RSI)	Philippines	(d)	100.00	100.00
Bankard Inc. (Bankard)	Philippines	(e)	59.30	72.70
Associates:				
RCBC Land, Inc. (RLI)	Philippines		49.00	49.00
YGC Corporate Services, Inc. (YCS)	Philippines		40.00	40.00
Luisita Industrial Park Co. (LIPC)	Philippines		35.00	35.00
Subic Power Corporation (SPC)	Philippines		26.50	26.50
Great Life Financial Assurance Corporation (GLFAC) *(formerly Nippon Life Insurance Co. of the Phils., Inc.)*	Philippines		20.00	20.00
Honda Cars Phils., Inc. (HCPI)	Philippines		12.88	12.88
New Pacific Resources Management (SPV-AMC), Inc. (NPRMI)	Philippines	(f)	5.00	100.00
Roxas Holdings, Inc. (RHI)	Philippines		3.68	3.68

(a) Includes 31% ownership of RCBC IFL

(b) A wholly owned subsidiary of RCBC IFL

(c) Parent Company made an additional investment amounting to ₱405 million in 2006 through debt-to-equity conversion

(d) A wholly owned subsidiary of RCBC Capital

(e) A 72.70% owned subsidiary of RCBC Capital in 2006; RCBC Capital sold some of its shares in 2007 through the stock exchange reducing its ownership to 59.30%

(f) A wholly owned subsidiary in 2006; the Parent Company assigned 95% of its shares in 2007.

The Parent Company is a universal bank engaged in all aspects of banking. It provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury, and trust and custodianship services. The Parent Company also enters into forward currency contracts as an accommodation to its clients and as a means of managing its foreign exchange exposures. The Parent Company and its subsidiaries (together hereinafter referred to as the "Group") are engaged in all aspects of traditional banking, investment banking, retail financing (credit cards, auto loans and mortgage/ housing loans), leasing, and stock brokering. At the end of September 30 2007, the Parent Company has 181 business centers and 5 extension offices within and outside of the Philippines.

The Parent Company's common shares are listed in the Philippine Stock Exchange (PSE) and is a 43.62% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies.

The registered address of the Parent Company is at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue, Makati City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 Basis of Preparation

(a) Statement of Compliance with Philippine Financial Reporting Standards (PFRS)

The consolidated financial statements of the Group have been prepared in accordance with PFRSs, except for the following matters which are discussed fully in Note 9: the staggered recognition of the additional allowance for impairment and losses, and the derecognition of certain non-performing assets (NPAs) transferred and credit card receivables sold. PFRSs are adopted by the Financial Reporting Standards Council (FRSC), from the pronouncements issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets. The measurement bases are more fully described in the accounting policies that follow.

(b) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Group's functional currency, and all values represent amounts in thousands except for per share data and when otherwise indicated (see also Note 2.17).

2.2 Impact of New Standards, and Amendments and Interpretations to Existing Standards that are Relevant to the Group in 2007

(a) Effective in 2007

There are a few new and amended accounting standards and Philippine Interpretation to existing standards that are effective in 2007. These are as follows:

PFRS 7	:	Financial Instruments: Disclosures
PAS 1 (Amendment)	:	Presentation of Financial Statements
Philippine Interpretation IFRIC 10	:	Interim Financial Reporting and Impairment

Discussed below are the impact on the consolidated financial statements of these accounting standards.

(i) PFRS 7, *Financial Instruments: Disclosures* and complementary amendment to PAS 1 (effective for annual periods beginning on or after January 1, 2007). PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions,* and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation.* It is applicable to all entities that report under PFRS. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group has assessed the impact of PFRS 7 and the amendment to PAS 1 and has included certain required additional disclosures to its consolidated financial statements.

(ii) Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after November 1, 2006). It prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent statement of condition date. The Group has assessed the impact of this Philippine Interpretation on its financial statements and has determined that such does not have significant effects on the financial statements for 2007, as well as for prior and future periods.

(b) *Effective Subsequent to 2007*

There are new and amended accounting standards and Philippine Interpretations to existing standards that are effective for periods subsequent to 2007. Of these accounting standards, the following are relevant to the Group which the Group will apply subsequent to 2007 in accordance with their transitional provisions:

Philippine Interpretation IFRIC 14	:	PAS 19—The Limit on Defined Benefit Asset, minimum Funding Requirements and their Interaction
PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PAS 23 (Revised 2007)	:	Borrowing Costs
PFRS 8	:	Operating Segments

Below is a discussion of the possible impact of the foregoing accounting standards.

(i) Philippine Interpretation IFRIC 14, *PAS 19—The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from January 1, 2008). This Philippine Interpretation provides general guidance on how to assess the limit in PAS 19, *Employee Benefits,* on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement. This Philippine Interpretation will standardize practice and ensure that entities recognize an asset in relation to a surplus on a consistent basis. The Group is currently evaluating the impact of this Philippine Interpretation on its consolidated financial statements and has initially determined that such may not have significant effects on the consolidated financial statements for 2008.

(ii) PAS 1 (Revised 2007), *Presentation of Financial Statements* (effective from January 1, 2009). The main changes that are triggered by this standard result in a separate presentation of changes in equity that arise from transactions with owners in their capacity as owners (e.g., dividends, capital increases) from other changes in equity (e.g., translation reserve). The revisions also include changes in the titles of some of the financial statements to reflect their function more clearly (for example, the balance sheet is renamed as statement of financial position). The Group will apply PAS 1 (Revised 2007) starting on January 1, 2009.

(iii) PAS 23 (Revised 2007), *Borrowing Costs* (effective January 1, 2009). Under the revised version of this standard, all borrowing costs that are directly attributable to qualifying assets are to be capitalized. The option of immediately expensing borrowing costs that qualify for asset recognition will be removed. The Group will apply PAS 23 (Revised 2007) from January 1, 2009 but management does not expect material adjustments to its consolidated financial statements.

(iv) PFRS 8, *Operating Segments* (effective January 1, 2009). This standard requires entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets to disclose segment information. With PFRS 8, entities are required to adopt the "management approach" to reporting on its operating segments. The expected impact is still being assessed by management, but it appears likely that the information generally to be reported in annual financial statements would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments.

2.3 Basis of Consolidation and Accounting for Investments in Subsidiaries and Associates in Separate Financial Statements

The Group obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated in Note 1, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate an impairment are recognized in the consolidated financial statements.

In the consolidated financial statements, the Group accounts for its investments in subsidiaries and associates, and minority interest as follows:

(a) *Investments in Subsidiaries*

Subsidiaries are all entities over which the Parent Company has the power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered from the date in which the Parent Company controls another entity. Subsidiaries are fully consolidated from the date on which the Parent Company obtains control. They are de-consolidated from the date the control ceases.

In addition, acquired subsidiaries are subject to application of the purchase method of accounting. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of condition at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Parent Company's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

All intercompany balances and transactions with subsidiaries, including the unrealized profits arising from intra-group transactions, have been eliminated in full. Unrealized losses are eliminated unless costs cannot be recovered.

(b) *Transactions with Minority Interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests may result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary. In the consolidated financial statements, minority interest component is shown as part of statement of changes in capital funds.

(c) *Investments in Associates*

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor interest in a joint venture. In the consolidated financial statements, Investments in Associates are initially recognized at cost and subsequently accounted for using the equity method. Under the equity method, the Group recognizes in its income statement its share in the earnings or losses of the associates. The cost of the investment is increased or decreased by the Group's equity in net earnings or losses of the associates since the date of acquisition. Dividends received are recorded as reduction in the carrying values of the investments.

Acquired investments in associates are also subject to purchase accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognized as investment in associates. All subsequent changes to the share of interest in the equity of the associate are recognized in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are charged against Commission and Other Income in the Group's income statement and therefore affect net results of the Group. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities. Items that have been directly recognized in the associate's equity, for example, resulting from the associate's accounting for available-for-sale financial assets, are recognized in consolidated Capital Funds of the Group. Any non-financial income related equity movements of the associate that arise, for example, from the distribution of dividends or other transactions with the associate's shareholders, are charged against the proceeds received or granted. No effect on the Group's net result or capital funds is recognized in the course of these transactions. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a segment engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2.5 Financial Assets

Financial assets include cash and other financial instruments. The Group classifies its financial assets, other than hedging instruments, into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Cash and Cash Equivalents comprise balances with less than three months maturity from the date of acquisition, including: cash and non-restricted balances with BSP and amounts due from other banks. Cash and cash equivalents are initially and subsequently measured at fair value.

All financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs.

The foregoing categories of financial instruments are more fully described below.

(a) Financial Assets at Fair Value Through Profit or Loss

This category includes derivative financial instruments and financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as "held for trading" unless they are designated as hedges.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be reclassified.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to the debtor with no intention of trading the receivables. Included in this category are those arising from direct loans to customers, interbank loans and receivables, sales contracts receivable, and all receivables from customers and other banks.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Impairment losses is the estimated amount of losses in the Group's loan portfolio, based on the evaluation of the estimated future cash flows discounted at the loan's original effective interest rate or the last repricing rate for loans issued at variable rates (see Note 2.6). It is established through an allowance account which is charged to expense. Loans and receivables are written off against the allowance for impairment losses when management believes that the collectibility of the principal is unlikely, subject to BSP regulations.

(c) Held-to-maturity Investments

This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to maturity if the Group has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification.

Held-to-maturity investments consist of government and private debt securities. Should the Group sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale securities. The tainting provision will not apply if the sales or reclassifications of held-to-maturity investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or are attributable to an isolated event that is beyond the control of the Group, is nonrecurring and could not have been reasonably anticipated by the Group.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows (see Note 2.6). Any changes to the carrying amount of the investment due to impairment are recognized in profit or loss.

(d) Available-for-sale Securities

This includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in capital funds, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the consolidated income statement when these are sold or when the investment is impaired.

In the case of impairment, the cumulative loss previously recognized directly in capital funds is transferred to the consolidated income statement (see Note 2.6). If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through the consolidated income statement. On the other hand, if in subsequent period, the fair value of a debt classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed through the consolidated income statement.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes the fair value by using valuation techniques, which include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in Trading and Securities Gain—Net account in the consolidated income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in capital funds, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in capital funds shall be recognized in profit or loss. However, interest calculated using the effective interest method is recognized in the consolidated income statement. Dividends on available-for-sale equity instruments are recognized in the consolidated income statement when the entity's right to receive payment is established.

Non-compounding interest and other cash flows resulting from holding impaired financial assets are recognized in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

Derecognition of financial assets occurs when the right to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

2.6 Impairment of Financial Assets

The Group assesses at each consolidated statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a. significant financial difficulty of the issuer or obligor;

b. a breach of contract, such as a default or delinquency in interest or principal payments;

c. the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

d. it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

e. the disappearance of an active market for that financial asset because of financial difficulties; or;

f. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the group.

(a) Assets Carried at Amortized Cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivable or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan/receivable is determined to be uncollectible, it is written off against the related allowance for impairment. Such loan/receivable is written off after all the prescribed procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated income statement.

(b) Assets Carried at Fair Value

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss—is removed from Capital Funds and recognized in the consolidated income statement. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated income statement.

(c) Assets Carried at Cost

If there is objective evidence of impairment for any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost, the amount of impairment loss is recognized. The impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

2.7 Derivative Financial Instruments and Hedge Accounting

The Parent Company is a party to various foreign currency forward contracts and cross-currency swaps. These contracts are entered into as a service to customers and as a means of reducing or managing the Parent Company's foreign exchange and interest rate exposure as well as for trading purposes. Amounts contracted are recorded as contingent accounts that are not included in the consolidated statement of condition.

Derivatives are initially recognized as Financial Assets at Fair Value Through Profit or Loss at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. The change in fair value of derivative financial instruments is recognized in profit or loss, except when their effects qualify as a hedging instrument. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Parent Company and certain subsidiaries recognize the profits at initial recognition.

Certain derivatives embedded in other financial instruments, such as credit default swaps in a credit linked note, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognized as Trading and Securities Gain—net in the consolidated income statement.

Except for derivatives that qualify as a hedging instrument, changes in fair value of derivatives are recognized in profit and loss. For a derivative that is designated as a hedging instrument, the method of recognizing the resulting fair value gain or loss depends on the type of hedging relationship. The Parent Company designates certain derivatives as either: (a) hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedges); or (b) hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

2.8 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Depreciation is computed on the straight-line method over the estimated useful lives of the depreciable assets as follows:

Buildings	20-25 years
Furniture, fixtures and equipment	3-15 years

Leasehold rights and improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.18).

The residual values and estimated useful lives of bank premises, furniture, fixtures and equipment are reviewed, and adjusted if appropriate, at each consolidated statement of condition date.

An item of bank premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year the item is derecognized.

2.9 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amounts reported in the consolidated statement of condition when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.10 Investment Properties

Investment properties pertain to land, buildings or condominium units foreclosed or acquired by the Group as payment from defaulting borrowers not held for sale in the next twelve months.

Investment properties are initially recognized at cost, which includes acquisition price plus directly attributable cost incurred such as legal fees, transfer taxes and other transaction costs. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and any impairment losses.

The Group adopted the cost model in measuring its investment property, hence, is carried at cost less accumulated depreciation and any impairment in value. Depreciation and impairment loss are recognized in the same manner as in Bank Premises, Furniture, Fixtures and Equipment.

2.11 Assets Held-for-Sale

Assets held-for-sale (presented as part of Other Resources) include real and other properties acquired through repossession or foreclosure or purchase that certain subsidiaries intend to sell within one year from the date of classification as held-for-sale.

Assets classified as held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held-for-sale and their fair value less costs to sell. Assets classified as held-for-sale are not subject to depreciation or amortization. The profit or loss arising from the sale or revaluation of held-for-sale assets is included in the Other Operating Income (Expenses) account in the consolidated income statement.

2.12 Intangible Assets

Goodwill represents the excess of the cost of acquisition over the fair value of the RSB's acquisition of certain assets and branch licenses and assumption of certain liabilities of Capitol Development Bank at the date of acquisition. Goodwill is classified as intangible asset with indefinite useful life and, thus, not subject to amortization but would require an annual test for impairment. Goodwill is subsequently carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing. Each of those cash generating units is represented by each primary reporting segment.

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives (three to five years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives (not exceeding five years).

2.13 Financial Liabilities

Financial liabilities include deposit liabilities, bills payable, bonds payable, subordinated debt, outstanding acceptances payable, due to other banks, accrued interest, taxes and other expenses, and other liabilities.

Financial liabilities are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest related charges is recognized as an expense in the consolidated income statement.

Financial liabilities are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments.

Bills payable, bonds payable and subordinated debt are recognized initially at fair value, which is the issue proceeds (fair value of consideration received) net of direct issue costs. Bills payable, bonds payable and subordinated debt are subsequently stated at amortized cost; any difference between the proceeds net of transaction costs and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Preferred shares, which carry mandatory coupons or are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities and are presented as part of Other Liabilities in the consolidated statement of condition. The dividends on these preference shares are recognized in the consolidated income statement as interest expense on an amortized cost basis using the effective interest method.

Derivative financial liabilities represent the cumulative changes in net fair value losses arising from the Group's foreign currency forward transactions.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are approved by the BSP.

Financial liabilities are derecognized from the consolidated statement of condition only when the obligations are extinguished either through discharge, cancellation or expiration.

2.14 Provisions

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of condition date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain, as a separate asset at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each consolidated statement of condition date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence are not recorded.

A subsidiary, under its rewards program, offers monetized rewards to active cardholders. Provisions for rewards are recognized at a certain rate of cardholders' credit card availments, determined by management based on actual redemption experience. At present, the subsidiary has not set a prescription period for the redemption of the reward points.

2.15 Revenue and Cost Recognition

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

(a) *Interest income and expenses* are recognized in the consolidated income statement for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) *Trading and securities gain* is recognized when the ownership of the securities is transferred to the buyer (at an amount equal to the excess of the selling price over the carrying amount of securities) and as a result of the mark-to-market valuation of the securities at year-end.

(c) *Finance charges* are recognized on credit card revolving accounts, other than those accounts classified as installment, as income as long as those outstanding account balances are not over 90 days past due. Finance charges on installment accounts, first year and renewal membership fees are recognized as income when billed to cardholders. Purchases by cardholders which are collected on installment are recorded at the cost of items purchased.

(d) *Late payment fees* are billed on delinquent credit card receivable balances until 179 days past due. These late payments are recognized as income upon collection.

(e) *Loan fees* are recognized as earned over the terms of the credit lines granted to each borrower. *Loan syndication fees* are recognized upon completion of all syndication activities and where there are no further obligations to perform under the syndication agreement. *Service charges and penalties* are recognized only upon collection or accrued where there is a reasonable degree of certainty as to its collectibility.

(f) *Discounts earned,* net of interchange costs, are recognized as income upon presentation by member establishments of charges arising from Bankard and non-Bankard (associated with MasterCard, JCB and VISA labels) credit card availments passing through the credit terminals of Bankard. These discounts are computed based on agreed rates and are deducted from amounts remitted from member establishments. Interchange costs pertain to the other credit card companies' share in Bankard's merchant discounts whenever their issued credit cards transact in a Bankard terminal.

(g) *Profit from assets sold or exchanged* is recognized when the title to the acquired assets is transferred to the buyer, or when the collectibility of the entire sales price is reasonably assured.

Cost and expenses are recognized in the consolidated income statement upon utilization of the assets or services or at the date they are incurred.

2.16 Leases

(a) *Group as Lessee*

Leases, which do not transfer to the Group substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments are recognized as expense in the consolidated income statement on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(b) *Group as Lessor*

Leases, wherein the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease. Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease collections are recognized as income in the consolidated income statement on a straight-line basis over the lease term.

2.17 Functional Currency and Foreign Currency Transactions

(a) *Functional and Presentation Currency*

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Philippine pesos, which is the Group's functional currency.

(b) *Transaction and Balances*

Except for the foreign subsidiaries and accounts from the Group's foreign currency-denominated unit (FCDU), the accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing at transaction dates. Resources and liabilities denominated in foreign currencies are translated to Philippine pesos at prevailing Philippine Dealing System closing rates (PDSCR) at the consolidated statement of condition date.

For financial reporting purposes, the accounts of the FCDU, which are maintained in US dollars, are translated into their equivalents in Philippine pesos based on PDSCR prevailing at the end of the year (for resources and liabilities) and at the average PDSCR for the year (for income and expenses).

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary resources and liabilities denominated in foreign currencies are recognized in the consolidated income statement, except when deferred in capital funds as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on on-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are recognized as part of the unrealized gain or loss in the market value of available-for-sale securities presented in capital funds.

(c) *Translation of Financial Statements of Foreign Subsidiaries*

The results and financial position of all the foreign subsidiaries (none of which has the currency dependency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of condition presented are translated at the closing rate at the date of that statement of condition;
- Income and expenses for each income statement are translated at average exchange rates during the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognized as a separate component of capital funds.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to Capital Funds. When a foreign operation is sold, such exchange differences are recognized in the consolidated income statement as part of the gain or loss on sale.

2.18 Impairment of Non-financial Assets

The Group's investments in associates, bank premises, furniture, fixtures and equipment, investment property and other resources (including intangible assets) are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.19 Employee Benefits

(a) *Retirement Benefit Obligations*

Pension benefits are provided to employees through a defined benefit plan, as well as defined contribution plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of pension plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the consolidated statement of condition for defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the statement of condition date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are not recognized as an expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past-service costs are recognized immediately in the consolidated income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity such as the Social Security System. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(b) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the consolidated statement of condition date. They are included in the Accrued Taxes, Interest and Other Expenses account at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.20 Income Taxes

Current tax assets or liabilities comprise those claims from, or obligations to, tax authorities relating to the current or prior reporting period, that are unpaid at the consolidated statement of condition date. They are calculated according to the tax rates and tax laws applicable to the periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of Tax Expense in the consolidated income statement.

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

Under the balance sheet liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax assets can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of condition date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the consolidated statement of condition date.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

2.21 Related Parties

Parties are considered related when one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

2.22 Capital Funds

Preferred and common stocks are carried at their nominal values.

Hybrid perpetual securities are carried at the net proceeds from the issuance of non-cumulative step-up callable perpetual securities.

Capital paid in excess of par includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Revaluation reserves pertain to change in the fair value of available-for-sale securities resulting in net gains and losses as a result of the revaluation of available-for-sale financial assets.

Accumulated translation adjustment represents the cumulative gain from the translation of the financial statements of foreign subsidiaries whose functional currency is different to that of the Group.

Reserve for trust business represents the accumulated amount set aside under Section 66 of Republic Act No. 337, as amended, requiring the Parent Company and a subsidiary to carry to surplus 10% of its net profits accruing from trust business since the last preceding dividend declaration until the surplus shall amount to 20% of authorized capital stock. The reserve shall not be paid out in dividends, but losses accruing in the course of the trust business may be charged against this account.

Share in additional paid-in capital of an associate represents the share of the Parent Company in the additional paid-in capital of an associate accounted for under the equity method in the consolidated financial statements.

Surplus includes all current and prior period results as disclosed in the consolidated income statement.

2.23 Earnings Per Share

Basic earnings per share (EPS) is determined by dividing the net income for the period attributable to common shareholders of the Parent Company by the weighted average number of common shares outstanding during the period, after giving retroactive effect to any stock dividends declared in the current year.

Diluted earnings per common share is also computed by dividing net income by the weighted average number of common shares subscribed and issued during the period. However, net income attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive preferred shares. Preferred shares are deemed to have been converted into common shares at transaction date.

2.24 Trust Activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group.

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes.

3.1 Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.

(a) Functional Currency

The Group has determined that its functional currency is the Philippine peso which is the currency of the primary environment in which the Group operates.

(b) Held-to-maturity Investments

The Group follows the guidance of PAS 39, *Financial Instruments: Recognition and Measurement,* in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments at maturity other than for the allowed specific circumstances—for example, selling a not insignificant amount close to maturity—it will be required to reclassify the entire class to available-for-sale securities.

However, the tainting provision will not apply if the sales or reclassifications of held-to-maturity investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; or occurs after the Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or are attributable to an isolated event that is beyond the control of the Group, is nonrecurring and could not have been reasonably anticipated by the Group. The investments would therefore be measured at fair value and not at amortized cost.

(c) Impairment of Available-for-sale Securities

The Group follows the guidance of PAS 39, *Financial Instruments: Recognition and Measurement,* on determining when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

During the period, the Group recognized as part of the revaluation reserves a fair value loss as of September 30, 2007 of ₱2,376,555 and a fair value gain as of September 30, 2006 of ₱1,608,422 as a result of changes in fair values of the available-for-sale securities (see Note 8).

(d) Distinction Between Investment Property and Owner-occupied Properties

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generated cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portion can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in operations or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

(e) Operating and Finance Leases

The Group has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Rent expense charged to operations for the nine months ended September 30, 2007 and 2006 amounted to ₱328 million and ₱307 million, respectively (see Note 25).

(f) Classification of Acquired Properties and Fair Value Determination of Assets Held- for-Sale and Investment Property

The Group classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held-for-Sale if the Group expects that the properties will be recovered through sale rather than use, as Investment Property if the Group intends to hold the properties for capital appreciation or as Financial Assets in accordance with PAS 39. At initial recognition, the Group determines the fair value of acquired properties through internally and externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

(g) Fair Values of Financial Assets and Liabilities

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented in the statement of condition at their fair value.

	2007		**2006**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Due from BSP	**₱ 16,741,215**	**₱ 16,741,215**	₱ 9,947,989	₱ 9,947,989
Due from Other Banks	**3,998,322**	**3,998,322**	5,532,852	5,532,852
Loans and Other Receivables	**112,048,448**	**112,048,448**	102,260,875	102,260,875
Deposit Liabilities:				
Demand	**9,714,817**	**9,714,817**	9,693,777	9,693,777
Savings	**61,670,965**	**61,670,965**	56,607,750	56,607,750
Time	**86,525,658**	**86,525,658**	83,664,480	83,664,480
Bills Payable	**16,831,515**	**16,831,515**	15,147,129	15,147,129
Bonds Payable	**6,159,824**	**6,159,824**	6,846,733	6,846,733

(h) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.14 and relevant disclosures are presented in Note 29.

3.2 Estimates

The estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances of the Group's financial statements. Actual results could differ from those estimates. The following are the relevant estimates performed by management on its consolidated financial statements:

(a) Impairment losses on financial assets

The Group reviews its loan portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates. However, the amount of changes in fair value would differ if the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

Provisions for impairment losses for the nine months ended September 30, 2007 and 2006 amounted to ₱1,225,533 and ₱1,438,980, respectively.

(b) Useful Life of Bank Premises, Furniture, Fixtures and Equipment

The Group estimates the useful lives of bank premises, furniture, fixtures and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of bank premises, furniture, fixtures and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of bank premises, furniture, fixtures and equipment would increase recorded operating expenses and decrease bank premises, furniture, fixtures and equipment.

Bank premises, furniture, fixtures and equipment net of accumulated depreciation, amortization and impairment losses amounted to ₱3,436,517 and ₱3,409,070 as of September 30, 2007 and 2006, respectively (see Note 11).

(c) Fair Value of Derivatives

The fair value of derivative financial instruments that are not quoted in an active market are determined through valuation techniques using the net present value computation.

Valuation techniques are used to determine fair values which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions could affect reported fair value of financial instruments. The Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each consolidated statement of condition date.

(d) Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at each consolidated statement of condition date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets amounted to ₱1,643,198 and ₱1,833,968 as of September 30, 2007 and 2006, respectively (see Note 26).

(e) Impairment of Non-financial Assets

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.18. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

(f) Retirement Benefits

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 2.19 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement benefit asset and net unrecognized actuarial gains amounted to ₱5,603 and ₱171,328 as of September 30, 2007, respectively; and ₱33,869 and ₱366,483 as of September 30, 2006, respectively (see Note 24).

4. SEGMENT INFORMATION

The Group's operating businesses are recognized and managed separately according to the nature of services provided (primary segments) and the different markets served (secondary segments) with a segment representing a strategic business unit. The Group's business segments follow:

- *Retail Banking*—principally handles the business centers offering a wide range of financial products and services to the commercial "middle market" customers. Products offered include individual customer's deposits, term loans, revolving credit lines, overdraft facilities, trade finance, payment remittances, and foreign exchange transactions.
- *Corporate Banking*—principally handles loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
- *Financial Management*—principally provides money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.
- *Others*—consists of the Parent Company's various support group and consolidated subsidiaries.

These segments are the basis on which the Group reports its primary segment information. Other operations of the Group comprise the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment revenues and expenses that are directly attributable to primary business segment and the relevant portions of the Group's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment.

For secondary segment, revenues and expenses are attributed to geographic areas based on the location of the resources producing the revenues, and in which location the expenses are incurred.

Primary segment information (by business segment) on a consolidated basis as of and for the nine months ended September 30, 2007 and 2006 (in million Philippine pesos) follow:

	2007				
	Retail Banking Group	Corporate Banking Group	Financial Management Group	Others	Total
Results of operations					
Net interest income	₱ 1,497	₱ 2,216	₱ 402	₱ 2,438	₱ 6,553
Non-interest income	634	320	1,471	1,106	3,531
Total revenue	2,131	2,536	1,873	3,544	10,084
Non-interest expense	1,582	274	214	4,991	7,061
Income (loss) before income tax	549	2,262	1,659	(1,447)	3,023
Income tax provision	—	—	—	484	484
Minority interest in net loss	—	—	—	17	17
Net income (loss)	₱ 549	₱ 2,262	₱ 1,659	₱ (1,948)	₱ 2,522
Statement of condition					
Total Resources	₱98,246	₱49,703	₱66,477	₱11,011	₱225,437
Total Liabilities	₱92,962	₱46,145	₱66,721	₱ (8,510)	₱197,318
Other segment information					
Capital expenditures	₱ 55	₱ 6	₱ 2	₱ 275	₱ 338
Depreciation and amortization	₱ 67	₱ 7	₱ 5	₱ 159	₱ 238

	2006				
	Retail Banking Group	Corporate Development Group	Financial Management Group	Others	Total
Results of operations					
Net interest income	₱ 2,048	₱ 879	₱ 712	₱ 2,104	₱ 5,743
Non-interest income	508	397	927	580	2,412
Total revenue	2,556	1,276	1,639	2,684	8,155
Non-interest expense	1,454	187	198	4,954	6,793
Income (loss) before income tax	1,102	1,089	1,441	(2,270)	1,362
Income tax provision	—	—	—	359	359
Minority interest in net loss	—	—	—	(156)	(156)
Net income (loss)	₱ 1,102	₱ 1,089	₱ 1,441	₱(2,473)	₱ 1,159
Statement of condition					
Total Resources	₱102,173	₱40,732	₱59,717	₱ 3,280	₱205,902
Total Liabilities	₱ 95,864	₱40,692	₱59,459	₱(5,421)	₱190,594
Other segment information					
Capital expenditures	₱ 46	₱ 2	₱ 3	₱ 306	₱ 357
Depreciation and amortization	₱ 74	₱ 10	₱ 5	₱ 157	₱ 246

Secondary information (by geographical location) as of and for nine months ended September 30, 2007 and 2006 (in million Philippine pesos) follows:

	2007			
	Philippines	United States	Asia and Europe	Total
Results of operations				
Total revenues	₱ 14,832	₱ 87	₱ 70	₱ 14,989
Total expenses	(12,328)	(76)	(63)	(12,467)
Net income	₱ 2,504	₱ 11	₱ 7	₱ 2,522
Statement of condition				
Total resources	₱224,886	₱211	₱340	₱225,437
Total liabilities	₱197,074	₱126	₱118	₱197,318
Other segment information				
Capital expenditures	₱ 331	₱ 5	₱ 2	₱ 338
Depreciation and amortization	₱ 235	₱ 1	₱ 1	₱ 238

	2006			
	Philippines	United States	Asia and Europe	Total
Results of operations				
Total revenues	₱ 13,479	₱ 96	₱ 81	₱ 13,656
Total expenses	(12,359)	(82)	(56)	(12,497)
Net income	₱ 1,120	₱ 14	₱ 25	₱ 1,159
Statement of condition				
Total resources	₱205,351	₱193	₱358	₱205,902
Total liabilities	₱190,368	₱112	₱114	₱190,594
Other segment information				
Capital expenditures	₱ 356	₱ 1	₱—	₱ 357
Depreciation and amortization	₱ 244	₱ 1	₱ 1	₱ 246

5. CASH AND CASH EQUIVALENTS

The components of Cash and Cash Equivalents are as follows:

	2007	2006
Cash and other cash items	**₱ 3,964,344**	₱ 3,586,989
Due from BSP	**16,741,215**	9,947,989
Due from other banks	**3,998,322**	5,532,852
	₱24,703,881	₱19,067,830

The balance of Due from Other Banks account represents regular deposits with the following:

	2007	2006
Local banks	**₱ 891,450**	₱1,519,779
Foreign banks	**3,106,872**	4,013,073
	₱3,998,322	₱5,532,852

Interest rates on these deposits range from 1% to 4.5% and 1% to 5% per annum for the periods ended September 30 2007 and 2006, respectively.

The breakdown of Due from Other Banks by currency is shown below:

	2007	2006
Philippine pesos	**₱ 672,082**	₱ 440,898
Foreign currencies	**3,326,240**	5,091,954
	₱3,998,322	₱5,532,852

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of the following:

	2007	2006
Government bonds	**₱ 7,577,953**	₱ 4,919,822
Derivative financial assets	**1,633,432**	1,119,429
Other debt securities (not quoted)	**3,854,656**	5,514,700
Equity securities:		
Quoted	**751,112**	162,408
Unquoted	**525**	536
	₱13,817,678	₱11,716,895

The carrying amounts of the above financial assets are classified as follows:

	2007	2006
Held-for-trading	**₱ 7,256,607**	₱ 5,936,560
Designated as fair value through profit or loss on initial recognition	**6,561,071**	5,780,335
	₱13,817,678	₱11,716,895

Financial assets at fair value through profit or loss represent various treasury bills and other securities issued by the government and other private corporations earning annual interest of 3.478% to 16.5% and 6.01% to 16% in 2007 and 2006, respectively (peso denominated); and 2.375% to 10.625% and 2.38% to 10.63% in 2007 and 2006, respectively (foreign currency denominated).

In general, fair values are determined directly by reference to published price quoted in an active market. Fair values of government bonds have been determined directly by reference to published closing prices available from electronic financial data service providers which were based on price quoted or actually dealt in an active market. Fair values of derivative financial assets are determined through valuation techniques using net present value computation. Derivatives instruments used by the Parent Company include foreign currency short term forwards and cross-currency swaps. Foreign currency forwards represent commitments to purchase/sell on a future date at a specific exchange rate. Foreign currency short term swaps are simultaneous foreign currency spot and forward deals with tenor of one year.

The aggregate contractual or notional amount of derivatives financial instruments and the aggregative fair values of derivative financial assets and liabilities as of September 30, 2007 and 2006 in the consolidated financial statements are set out below:

	2007		
	Notional Amount	Fair Values	
		Assets	Liabilities
Currency swaps	₱(4,614,059)	₱1,008,565	₱ 67
Currency forwards/futures	807,333	183,194	—
Credit default swaps	—	441,673	889,107
	₱(3,806,726)	₱1,633,432	₱889,174

	2006		
	Notional Amount	Fair Values	
		Assets	Liabilities
Currency swaps	₱(5,009,323)	₱ 399,594	₱ —
Currency forwards/futures	8,556,490	365,627	332,027
Credit default swaps	—	354,208	—
	₱ 3,547,167	₱1,119,429	₱332,027

The Group recognized the increase in value of financial assets designated as at fair value through profit or loss of ₱259,352 and ₱213,385 for the periods ended September 30, 2007 and 2006, respectively, which was included under the line item Commissions and Other Income in the consolidated statements of income.

The derivative liabilities of ₱889,174 and ₱332,027 as of September 30, 2007 and 2006, respectively are shown as part of Other Liabilities in the consolidated statements of condition (see Note 19).

7. HELD-TO-MATURITY INVESTMENTS

In 2006, the Group sold certain held-to-maturity investments totaling ₱322,698 before maturity. The sale resulted in the tainting of all held-to-maturity investments of the Group. Accordingly, all held-to-maturity investments of the Group were reclassified into available-for-sale securities. This new classification provides flexibility for the Group in restructuring its investment securities portfolio to take into consideration the changes in regulatory minimum capital ratio requirements under BSP Circular 538, or in response to needs for liquidity. The reclassification resulted in the recognition of available-for-sale securities amounting to ₱28,995,377 in the consolidated financial statements representing the amortized cost of such held-to-maturity investments at the date of reclassification.

Changes in the held-to-maturity investments account during the period ended September 30, 2006 are summarized below:

Balance at beginning of the period	₱ 24,323,163
Additions	21,970,474
Reclassification to available- for-sale securities (see Note 8)	(28,995,377)
Maturities	(17,357,197)
Amortization/ accretion of discount or premium	58,937
Balance at end of period	₱ —

On February 17, March 3 and September 4, 2006, the Parent Company participated in the exchange offer of the Bureau of Treasury to exchange certain held-to-maturity investments in government securities amounting to ₱3,933,378. The fair value of the Benchmark Bonds received in exchange amounted to ₱4,236,403. Accordingly, the difference between the fair value of the new financial assets and the carrying amount of the existing financial assets amounting to ₱303,025 was recognized as part of the Trading and Securities Gain—net account in the 2006 consolidated income statement.

8. AVAILABLE-FOR-SALE SECURITIES

The Group's available-for-sale securities consist of the following:

	2007	2006
Debt securities	**₱13,691,738**	₱ 7,398,882
Government bonds	**31,794,295**	35,435,748
Equity securities	**925,591**	977,585
	46,411,624	43,812,215
Allowance for impairment	**(829,923)**	(540,143)
	₱45,581,701	₱43,272,072

Available-for sale securities include government bonds and other debt securities which earn interest of 6.27% to 15.63% and 5% to 13% per annum in 2007 and 2006, respectively (peso denominated); and 4% to 15.63% and 6.19% to 11.5% per annum in 2007 and 2006, respectively (dollar denominated).

In 2006, the Group reclassified its held-to-maturity investments to available-for-sale securities as a result of "tainting" (see Note 7). Changes in available-for-sale securities are as follows:

	2007	2006
Balance at beginning of the period	**₱47,816,693**	₱10,852,853
Additions	**5,228,682**	3,003,862
Reversal of (provision for) impairment losses	**(286,935)**	13,338
Fair value gains (losses)	**(2,376,555)**	1,608,422
Sale/disposal	**(4,800,184)**	(1,201,780)
Transfer from held-to-maturity investments	**—**	28,995,377
Balance at end of period	**₱45,581,701**	₱43,272,072

The fair value gain (loss) from available-for-sale securities was taken up directly in capital funds.

Certain government securities are deposited with BSP as security for the Group's faithful compliance with its fiduciary obligations in connection with the Bank's trust operations (see Note 27).

9. LOANS AND RECEIVABLES

This account consists of the following:

	2007	2006
Loans and discounts	**₱ 87,529,444**	₱ 75,180,461
Customers' liabilities on acceptances, import bills and trust receipts	**6,655,228**	7,431,751
Bills purchased	**1,726,380**	1,133,852
Securities purchased under reverse repurchase agreements	**519,000**	48,000
	96,430,052	83,794,064
Interbank loans receivables	**14,419,644**	21,852,781
Credit card receivables	**8,200,463**	8,055,889
Accrued interest receivables	**2,948,600**	2,523,013
Accounts receivables	**1,268,550**	1,252,576
Sales contract receivables	**1,104,005**	742,950
Miscellaneous	**105,851**	129,509
	124,477,165	118,350,782
Unearned discount	**(1,633,914)**	(1,545,850)
Prompt payment discount	**(291,070)**	(228,332)
Allowance for impairment	**(10,503,693)**	(10,384,925)
Credit card receivables sold	**(—)**	(3,930,800)
	₱112,048,488	₱102,260,875

Included in these accounts are nonperforming loans amounting to ₱6,966,491, net of allowance for impairment of ₱1,171,229 as of September 30, 2007, and ₱8,177,390 net of allowance for impairment of ₱1,542,897 as of September 30, 2006.

Loans and receivables amounting to ₱79,935 and ₱152,981 as of September 30, 2007 and 2006, respectively, are assigned as collaterals to BSP as security for rediscounting availments (see Note 16).

The concentration of credit as to industry follows:

	2007		2006	
	Amount	**%**	**Amount**	**%**
Real estate, renting and other related activities	**₱34,676,669**	**35.96%**	₱27,701,912	33.06%
Manufacturing (various industries)	**19,483,841**	**20.21%**	17,941,679	21.41%
Financial intermediaries	**13,821,833**	**14.33%**	12,497,055	14.91%
Wholesale and retail trade	**9,244,636**	**9.59%**	10,557,023	12.60%
Other community, social and personal activities	**6,194,458**	**6.42%**	9,034,255	10.78%
Transportation and communication	**1,354,710**	**1.40%**	1,903,911	2.27%
Agriculture, fishing and forestry	**1,899,662**	**1.97%**	627,641	0.75%
Others	**9,754,243**	**10.12%**	3,530,588	4.22%
	₱96,430,052	**100.00%**	₱83,794,064	100.00%

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio.

The breakdown of total loans as to secured and unsecured follows:

	2007	2006
Secured		
Real estate mortgage	**₱34,204,543**	₱32,397,772
Chattel mortgage	**10,505,628**	8,779,055
Deposit hold-out	**10,003,376**	11,512,694
Other securities	**5,951,699**	6,519,648
	60,665,246	59,209,169
Unsecured	**35,764,806**	24,584,895
	₱96,430,052	₱83,794,064

A reconciliation of the allowance for impairment at the beginning and end of September 30, 2007 and 2006 is shown below:

	2007	2006
Balance at beginning of the period	**₱10,394,956**	₱12,212,727
Impairment losses during the period	**1,225,533**	1,438,980
Accounts written-off	**(1,116,796)**	(3,266,782)
Balance at end of period	**₱10,503,693**	₱10,384,925

The maturity profile of the Loans account follows:

	2007	2006
Due within one year	**₱ 52,078,766**	₱ 42,406,919
Due beyond one year	**44,351,286**	41,387,145
	₱ 96,430,052	₱ 83,794,064

9.1 Bankard

On August 21, 2003, the BSP issued Memo Circular No. 398 which became effective on December 1, 2003. The BSP Circular prescribes, among others, the standard valuation reserves requirements for delinquent and potentially non-collectible credit card receivables. Based on this BSP Circular, Bankard has determined that the required allowance for impairment in the amount of ₱3,602,000 on the total credit card receivable portfolio as of December 31, 2003 would have a significant impact on the 2003 financial statements of Bankard if the whole amount would be recognized as of December 31, 2003. Bankard's management requested an approval from the BSP to allow the staggered booking of the required allowance for impairment in 2003 over a period of seven years starting in 2004.

The BSP, through its letter dated January 14, 2004, informed Bankard that the Monetary Board, under its Resolution No. 1872 dated December 22, 2003, has granted its request to stagger the booking of the valuation reserves of ₱3,602,000 over seven years. Also, Resolution No. 1872 requires it to infuse fresh capital equal to the amount of valuation reserves booked in accordance with the terms of the BSP approval. On December 29, 2005, the Parent Company made a fresh capital infusion amounting to ₱190,474 to comply with this BSP requirement.

The BSP-approved staggered booking of valuation reserves over the seven-year period is shown below:

Year	Percentage	Amount
2004	5	₱ 180,100
2005	5	180,100
2006	18	648,360
2007	18	648,360
2008	18	648,360
2009	18	648,360
2010	18	648,360
	100	₱3,602,000

Based on a separate determination made by Bankard of the required valuation reserves as of December 31, 2003 following the provisions of the BSP Circular, the computed required additional allowance for impairment approximates the BSP-approved amount of ₱3,602,000. However, in connection with the review of the allowance for impairment as of December 31, 2005, it was ascertained that this required additional allowance of ₱3,602,000 determined in 2003 did not pertain wholly to 2003, but a significant portion of such amount pertained to 2002 and prior years. Based on Bankard's recomputation, of the required additional allowance, ₱749,355 pertained to 2003 and ₱2,852,645 pertained to 2002 and prior years. In computing these amounts, the rules under BSP Circular No. 398 were applied.

Of the ₱3,602,000 required additional allowance, Bankard already recognized ₱846,470 in its books as of September 30, 2006 as follows: ₱180,100 in 2004, ₱180,100 in 2005 and ₱486,270 in 2006. PFRS, however, requires the full recognition of required allowance for impairment against current operations in the period such losses were determined.

In the consolidated financial statements for September 30, 2006, had Bankard recognized the required allowance for impairment in the period the losses were determined, the Group Loans and Receivables account and Surplus account would have decreased by ₱2,755,530 as of September 30, 2006 and, the consolidated net income would have increased by ₱486,270 for the nine months ended September 30, 2006 (see also Note 34).

The balances of the credit card receivables of Bankard as of September 30, 2006 is net of the accounts sold to the Parent Company and other third parties, with RCBC Capital acting as its financial broker to the other third parties, which Bankard has derecognized in its books. In 2005, Bankard has transitioned to PFRSs and has adopted the relevant new and revised accounting standards, which include PAS 39 and PAS 32. PAS 39 prescribes, among others, the criteria for the derecognition of financial assets. Under those derecognition criteria, the credit card receivables sold by Bankard to the Parent Company and other third parties would not have qualified for derecognition. Had the credit card receivables sold not been derecognized as of September 30, 2006, the consolidated Loans and Receivables and Other Liabilities accounts would have been increased by ₱1,444,774 representing the credit card accounts sold to third parties (see also Note 34). The effects of the derecognition in the Group's reported net income for the nine months ended September 30, 2006 could not be quantified.

As mentioned in Note 9.3, Bankard sold and transferred to the Parent Company its various credit card receivables on December 29, 2006 totaling ₱7,239,913 under a Deed of Assignment of Receivables. The credit card receivables that were sold and transferred by Bankard to the Parent Company included credit card receivables amounting to ₱2,755,530 which, as approved by the BSP, are provided with allowance for impairment on a staggered basis. After the sale and transfer, the Parent Company charged in 2006 the impairment loss for the credit card receivables transferred amounting to ₱162,090 and wrote-off the remaining balance of these impaired credit card receivables amounting to ₱2,593,440 against the "freed" allowance for impairment pertaining to the non-performing assets (NPAs) transferred as discussed in

Note 9.2. The confirmation from the BSP that it interposes no objection to the sale and transfer of the credit card receivables was obtained by the Parent Company through a letter from the BSP dated March 15, 2007. However, the write-off of the remaining balance of impaired credit card receivables should have been charged against the operations for the year ended December 31, 2006. Had the write-off of the impaired credit card receivables been charged against the operations for the year ended December 31, 2006, the Group's Loans and Receivables and Surplus would have decreased by ₱2,593,440 as of September 30, 2007 (see Note 34).

9.2 Special Purpose Vehicle (SPV) Transactions

In accordance with the provisions of Republic Act No. 9182 (the SPV Act) and BSP Resolution No. 135, the Parent Company entered into either "sale and purchase" or "asset sale" agreements with SPVs, namely, New Pacific Resources Management (SPV-AMC), Inc. (New Pacific) on February 26, 2007, Star Two (SPV-AMC), Inc. (Star Two) on November 15, 2006, Philippine Investments One Inc. (PIOI) on August 25, 2004 and April 12, 2005, Global Ispat Holdings and Global Steelworks International (collectively referred herein as the Global SPVs) on October 15, 2004 and Asian Pacific Recoveries (SPV-AMC) Corporation (Asian Pacific Recoveries) on February 21, 2005. The agreements cover the transfer of specific NPAs, consisting of non-performing loans (NPLs) and/or real and other properties acquired (ROPA; presented as Investment Property), amounting to ₱1,698,558 in 2007 to New Pacific; ₱3,878,781 in 2006 to Star Two; ₱3,770,948 and ₱1,433,228 in 2004 and 2005, respectively to PIOI; ₱685,561 to Global SPVs in 2004; and ₱2,070,064 to Asian Pacific Recoveries in 2005. The agreement with the Global SPVs was made in conjunction with other participating banks. The agreement with Star Two also covers the sale of NPAs not eligible under the SPV Act amounting to ₱486,142.

The Certificates of Eligibility, obtained for purposes of availing of the tax exemptions and privileges on the NPLs transferred and ROPAs sold were completely issued by the BSP to the Parent Company on various dates in 2004, 2005 and 2007.

The total consideration for the sale of NPAs (for eligible and not eligible under the SPV Act) to Star Two amounted to ₱1,190,410. Based on the terms and conditions of the "asset sale and purchase" agreement with Star Two, the risk and rewards of the ownership of the sold NPAs was transferred completely to Star Two. The asset sale and purchase agreement also requires Star Two to pay an earnest money deposit equivalent to 20% of the total purchase price within five days after the bid award date. The 20% earnest money deposit amounting to ₱238,082 was received by the Parent Company in November 2006. The remaining outstanding balance of the purchase price amounting to ₱952,328 was subsequently collected on February 9, 2007.

The significant terms and conditions of the "sale and purchase" agreements with PIOI and the "asset sale" agreement with New Pacific, among others, follow:

- The SPVs shall issue 10-year subordinated/SPV notes in exchange for the NPLs transferred. The issuance of the subordinated/SPV notes constitutes full settlement for the NPLs transferred.
- The subordinated/SPV notes are subordinated in priority of payment to the senior notes and any other working capital notes of the SPV.
- The amount and schedule of payment of the subordinated/SPV notes shall be contingent and dependent on the amount and timing of collections to be made by the SPVs on the NPLs transferred, subject to the rights and privileges of the SPV's other creditors.

In addition, the SPV note issued by PIOI to the Parent Company relative to the April 12, 2005 "sale and purchase" agreement shall have a maturity of 10 years. Interest shall accrue on the amount of the aggregate allocated loan asset amount and shall be payable for each quarter in arrears in reckoning date at an interest rate equal to the 91-day rate for Philippine treasury bills per annum.

The significant terms and conditions of the Parent Company's "sale and purchase" agreement with the Global SPVs, among others, follow:

- The SPVs shall pay cash up front and issue 8-year zero-coupon subordinated notes to the Parent Company and other participating banks in exchange for the NPLs transferred. The issuance of the subordinated notes and the upfront cash payment to the Parent Company constitute full settlement for the NPLs transferred.

- The subordinated notes shall be issued to the Parent Company and other participating banks in two tranches, namely, Tranche A and Tranche B. The subordinated notes shall be secured by a first-ranking mortgage and security interest over the plant assets of the Global SPVs and standby letters of credit to be delivered by the Global SPVs from time to time in accordance with the agreement subject to the rights and privileges of the SPVs' other creditors.
- The amount and schedule of payment of the subordinated notes to the Parent Company and other participating banks shall be based on the repayment schedule set forth in the "sale and purchase" agreement.

The significant terms and conditions of the Parent Company's "sale and purchase" agreement with Asian Pacific Recoveries, among others, follow:

- The SPV shall pay ₱20 million as bid deposit.
- On closing date, the SPV shall pay the Parent Company the purchase price balance by wire transfer in full settlement of the NPLs transferred.
- SPV acknowledges and agrees that if there is occurrence of a default by any obligor under any loan document, SPV will remain bound by all terms and conditions to purchase all the loans in the transaction without any adjustment or alteration in the purchase price unless the Bank removes loans from the transaction prior to closing.

In relation to such transactions, the BSP has informed the Parent Company that the allowance for impairment amounting to ₱289,994 on the NPAs transferred to New Pacific in 2007; ₱1,474,441 on the NPAs transferred to Star Two in 2006; ₱2,225,558 and ₱163,814 to PIOI and the Global SPVs, respectively, in 2004; and ₱1,211,332 to PIOI and ₱245,477 to Asian Pacific Recoveries in 2005, shall be "freed" and used only for general loan loss provision and/or for specific provision of loan accounts that may be classified in the future. PFRS, however, requires the derecognition of the related allowance for impairment of the NPAs transferred that qualified for derecognition at the time of sale.

The face value of the subordinated/SPV notes issued by New Pacific in 2007 amounted to ₱1,688,902; subordinated/SPV notes issued by PIOI in 2005 amounted to ₱1,418,896 and ₱3,770,948 in 2004; the SPV note issued by Global SPVs amounted to ₱548,930 in 2004. In addition to the subordinated notes, the Global SPV also paid cash to the Parent Company amounting to ₱27,439 in 2004, PIOI and Asian Pacific Recoveries paid cash amounting to ₱14,332 and 427,564, respectively, for the 2005 transfer, and New Pacific paid cash amounting to ₱9,656 in 2007. In recording the transfers of the NPAs, the Parent Company derecognized the NPAs from their financial records and recorded the subordinated/SPV notes as part of Available-for-Sale Securities (unquoted debt securities) at their fair values as of the dates of issuance. However, one of the significant conditions stated in the terms of the subordinated/SPV notes from New Pacific and PIOI is that the amount and timing of payment of the subordinated/SPV notes are dependent on the collections to be made by New Pacific and PIOI on the NPAs transferred. Under PFRS, this is indicative of an incomplete transfer of the risks and rewards of ownership of the NPAs from the Parent Company to New Pacific and PIOI. PFRS requires that (a) the entity retaining majority of the residual risks and rewards of ownership of certain assets of SPV should reflect in its financial statements its proportionate interest in such SPV and (b) an entity should substantially transfer all the risks and rewards of ownership of an asset before such asset could be derecognized.

As permitted under BSP Resolution No. 135, the Parent Company has deferred over 10 years the recognition of the required additional allowance for impairment as determined from the NPAs transferred to PIOI, and the losses determined from the NPAs transferred to the Star Two, Global SPVs and Asian Pacific Recoveries, totaling to ₱1,335,149 in 2006, ₱1,604,587 in 2005 and ₱1,955,768 in 2004. The schedule of amortization of the required additional allowance for impairment and losses as prescribed under BSP Resolution No. 135 shall be 5% for the first three years, 10% for the next four years, and 15% for the remaining three years. The Parent Company recorded the amortization determined in accordance with BSP Resolution No. 135 amounting to ₱365,667 and ₱260,308 for the periods ended September 30, 2007 and 2006, respectively, (charged against the "freed" allowance for impairment as discussed above). While this accounting treatment is allowed under BSP Resolution No. 135, PFRS, however, require the full recognition of the required additional allowance for impairment and losses against current operations in the period such impairment and losses were determined instead of capitalizing it as deferred charges and amortizing it over future periods.

Had the Parent Company reflected in its financial statements its interest in New Pacific and PIOI and not derecognized the NPAs transferred, and not deferred the recognition of the required additional allowance for impairment and the losses determined from the NPAs transferred in accordance with PFRS, the gross balance of the Group's Loans and Receivables account would have increased by ₱5,204,176 both as of September 30, 2007 and 2006; allowance for impairment would have increased by ₱1,304,754 and ₱2,326,756 as of September 30, 2007 and 2006, respectively; Available-for-sale Securities would have decreased by ₱1,688,902 as of September 30, 2007; Investment Property would have increased by ₱1,698,558 as of September 30, 2007; Deferred Charges (part of Other Resources account) would have decreased by ₱8,727,326 and ₱6,370,175 as of September 30, 2007 and 2006, respectively; Other Liabilities would have increased by ₱23,988 and ₱14,332 as of September 30, 2007 and 2006, respectively; and Surplus would have decreased by ₱4,842,236 and ₱3,507,087 as of September 30, 2007 and 2006, respectively (see also Note 34).

RSB also entered into a separate "sale and purchase" agreement with PIOI on February 3, 2005 for the transfer of NPLs amounting to ₱85,745. RSB accounted for the transfer of the NPLs in 2005 in the same manner as the Parent Company accounted for the transfer of its NPLs to PIOI. However, in 2006, RSB restated its 2005 financial statements to comply with PFRS. Consequently, the derecognition of the NPLs and recognition of Deferred Charges and related amortization that were previously effected in the 2005 financial statements were reversed. In addition, RSB wrote-off in 2005 the ₱87,745 reinstated NPLs against the allowance for impairment. The reversal resulted in the increase in the previously recognized balance of Surplus as of January 1, 2006 amounting to ₱1,786 relating to the amortization of deferred charges previously made in 2005.

9.3 Acquisition of Credit Card Receivables and Other Assets and Assumption of Certain Liabilities of Bankard

On November 27, 2006, the Board of Directors of the Parent Company approved the acquisition of credit card receivables and other assets and assumption of certain liabilities of Bankard. This was effected by the Parent Company on December 29, 2006 through the following transactions with Bankard:

a. Bankard executed a Deed of Assignment of Receivables in favor of the Parent Company under which both parties agreed that in consideration of the assumption by the Parent Company of certain liabilities due to creditors and other suppliers, Bankard irrevocably sold and transferred its credit card receivables to the Parent Company with an estimated amount of ₱7,239,913. Both parties also agreed that the credit card accounts of Bankard's cardholders will be transferred to the Parent Company;

b. The Parent Company and Bankard executed a Deed of Absolute Sale for the sale of Bankard's 30 condominium units located at the Robinsons Equitable Tower, Bankard's principal place of business, with a net book value of ₱278,120 for a consideration of ₱285,029.

c. Bankard executed a Deed of Sale of Assets with Parent Company for the sale of its various assets amounting to ₱72,148 in consideration for the assumption by the Parent Company of certain liabilities due to creditors and suppliers totaling ₱2,791,418. Bankard paid the Parent Company ₱2,719,270 for the net liabilities that were assumed by the Parent Company.

Relative to the above transaction, on December 29, 2006, Bankard entered into a service agreement with the Parent Company. Under this agreement, Bankard agreed to provide the Parent Company with marketing, distribution, technical, collection and selling assistance and processing services to the Parent Company in connection with the operation of the credit card business. This agreement is pursuant to the terms and conditions of the Deed of Assignment of Receivables where Bankard sold its right, title and interest to its receivables to the Parent Company.

The Parent Company requested for BSP's confirmation on the above transactions and the BSP formally informed the Parent Company on March 15, 2007 that it interposes no objection to the above transactions.

10. INVESTMENTS IN ASSOCIATES

The components of the carrying values of investments in associates are as follows:

	% Interest Held	2007	2006
Acquisition costs:			
RLI	49.00	**₱ 921,076**	₱ 921,076
GLFAC	20.00	**200,000**	200,000
SPC	26.50	**120,095**	236,623
RHI	3.68	**101,665**	101,665
HCPI	12.88	**91,050**	91,050
LIPC	35.00	**52,500**	52,500
YCS	40.00	**5,070**	5,070
NPRMI	5.00	**1,563**	—
		1,493,019	1,607,984
Equity in net earnings (losses):			
Balance at beginning of period		**(38,472)**	(18,495)
Equity in net earnings		**149,174**	169,966
Dividends		**(106,046)**	(147,652)
Balance at end of period		**4,656**	3,819
Redemption of preferred shares		**(60,287)**	—
Share in additional paid-in capital of an associate		**532,583**	532,583
		1,969,971	2,144,386
Allowance for impairment		**(52,743)**	(52,500)
		₱ 1,917,228	₱ 2,091,886

The equity in net earnings of associates is included in Commissions and Other Income in the consolidated income statements.

The following table presents unaudited financial information on the significant associates as of and for the nine months ended September 30, 2007 and 2006:

	Assets	Liabilities	Revenues	Income (Loss)
2007:				
RLI	₱ 10,045,421	₱ 2,739,413	₱ 761,639	₱ 189,890
SPC	1,885,286	753,715	127,059	59,538
GLFAC	2,875,832	1,699,639	320,768	(14,937)
2006:				
RLI	₱ 10,257,057	₱ 2,887,879	₱ 621,978	₱ 129,992
SPC	2,707,393	1,229,187	1,218,352	545,932
GLFAC	2,746,169	1,551,796	415,717	20,409

The Parent Company, under a shareholders agreement, agreed with another stockholder of HCPI to commit and undertake to vote as a unit the shares of stock thereof, which they proportionately own and hold, and to regulate the conduct of the voting and the relationship between them with respect to their exercise of their voting rights. As a result of this agreement, the Parent Company would be able to exercise significant influence over the operating and financial policies of HCPI. Thus, HCPI has been accounted for using the equity method.

RCBC Capital entered into an agreement with another stockholder of RHI to commit and undertake to vote as a unit the shares of stock of RHI, representing 54.68% of the outstanding capital stock thereof, which they respectively own and hold, to regulate the conduct of the voting and the relationship between them with respect to the exercise of the voting rights. Thus, notwithstanding the RCBC Capital's ownership of only 3.68% in RHI, its investment is carried under the equity method of accounting.

NPRMI was incorporated with the Securities and Exchange Commission (SEC) on September 17, 2004 as a 100%-owned RCBC shelf-SPV solely for the purpose of facilitating the sale of the Bank's non-performing assets (NPAs) under the SPV Act of 2002. Financial institutions' formation of shelf-SPVs was encouraged by the BSP particularly to cater to the requirements of NPA investors which lacked the SPV vehicles which would purchase these assets from certain banks, provided these shelf-SPVs were duly incorporated not later than the SPV Act's original deadline of September 18, 2004. Although the SPV Act expired in the first semester of 2005, RCBC was allowed by the BSP to retain its shelf-SPV in a Monetary Board approval of October 6, 2005 in consideration of the likely extension/renewal of the SPV Act, and the Parent Company's plan to dispose of more NPAs, together with the remaining shelf-SPV, within the extended law's parameters. In 2006, the SPV Act was extended up to May 2008. On February 26, 2007, the Parent Company sold total NPAs of ₱1,698,558 to Innovative Property Solutions (IPS), a corporation duly organized and existing under Philippine Laws. On July 16, 2007, IPS through an Accession Agreement, assigned to NPRMI all of the former's rights and obligations as purchaser of NPAs sold. On June 27, 2007, the Parent Company sold, transferred and assigned to third parties its 95% interests in NPRMI including subscription liabilities for ₱30,278. The financial statement accounts of NPRMI are consolidated in the September 30, 2006 statement of condition.

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

A reconciliation of the carrying amounts at the beginning and end of September 30, 2007 and 2006, and the gross carrying amounts and the accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment are shown below:

	Land	Buildings	Furniture Fixtures and Equipment	Leasehold Rights and Improvements	Total
Balance at January 1, 2007, net of accumulated depreciation and amortization	₱ 1,089,649	₱ 988,946	₱ 582,644	₱ 726,300	₱ 3,387,539
Additions	9,791	38,645	231,870	64,429	344,735
Disposals	(25,218)	(4,552)	(15,306)	(12,995)	(58,071)
Depreciation and amortization charge for the period	—	(50,093)	(138,920)	(48,673)	(237,686)
Balance at September 30, 2007, net of accumulated depreciation and amortization	**₱ 1,074,222**	**₱ 972,946**	**₱ 660,288**	**₱ 729,061**	**₱ 3,436,517**
September 30, 2007					
Cost or valuation	₱ 1,074,222	₱ 1,489,571	₱ 2,363,457	₱ 729,061	₱ 5,656,311
Accumulated depreciation and amortization	—	(516,625)	(1,703,169)	—	(2,219,794)
Net carrying amount	**₱ 1,074,222**	**₱ 972,946**	**₱ 660,288**	**₱ 729,061**	**₱ 3,436,517**
Balance at January 1, 2006, net of accumulated depreciation and amortization	₱ 1,088,118	₱ 1,036,025	₱ 604,068	₱ 767,516	₱ 3,495,727
Additions	6,467	8,748	315,138	26,407	356,760
Disposals	(12,193)	(13,346)	(169,755)	(1,693)	(196,987)
Depreciation and amortization charge for the period	—	(41,577)	(154,314)	(50,539)	(246,430)
Balance at September 30, 2006, net of accumulated depreciation and amortization	₱ 1,082,392	₱ 989,850	₱ 595,137	₱ 741,691	₱ 3,409,070
September 30, 2006					
Cost or valuation	₱ 1,082,392	₱ 1,494,599	₱ 2,680,628	₱ 761,549	₱ 6,019,168
Accumulated depreciation and amortization	—	(504,749)	(2,085,491)	(19,858)	(2,610,098)
Net carrying amount	₱ 1,082,392	₱ 989,850	₱ 595,137	₱ 741,691	₱ 3,409,070

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the respective unimpaired capital of the Parent Company and RSB. As of September 30, 2007 and 2006, the Parent Company and RSB has satisfactorily complied with this BSP requirement.

12. INVESTMENT PROPERTIES

A reconciliation of the carrying amounts at the beginning and end of September 30, 2007 and 2006, and the gross carrying amounts and the accumulated depreciation and amortization of investment properties are as follows:

	2007	2006
Balance at beginning of period, net of accumulated depreciation	**₱ 9,984,857**	₱ 11,533,065
Additions	**590,276**	863,421
Disposal	**(2,504,771)**	(593,646)
Depreciation and amortization charges	**(3,336)**	(163,273)
Balance at end of period	**₱ 8,067,026**	₱ 11,639,567
January 1		
Cost	**₱ 12,084,330**	₱ 13,928,620
Accumulated depreciation and impairment	**(2,099,473)**	(2,395,555)
Net carrying amount	**₱ 9,984,857**	₱ 11,533,065
September 30		
Cost	**₱ 10,181,598**	₱ 13,734,069
Accumulated depreciation and impairment	**(2,114,572)**	(2,094,502)
Net carrying amount	**₱ 8,067,026**	₱ 11,639,567

In November 2003, RSB entered into a memorandum of Agreement (MOA) with certain borrowers for the settlement of their indebtedness with RSB amounting to ₱4.1 billion through dacion of certain real properties. Under the MOA, the transfer of the properties may be effected through the creation of special purpose companies (SPCs). On June 17, 2004, RSB entered into another MOA setting the guidelines in creating the SPC as well as the ultimate assignment to RSB of the shares of stock of the SPCs. On various dates in 2005 and 2004, certain SPCs were incorporated and created, covering certain real properties with carrying values of ₱2,472,830 and ₱1,938,234 in 2005 and 2004, respectively, being assigned to the SPCs. Moreover, the shares of stock of certain SPCs were transferred to RSB in 2005 and 2004. The remaining properties covered by the MOA are yet to be transferred to specific SPCs, and the ultimate assignment of the corresponding shares of stock of these specific SPCs to RSB has also not been effected. There were no new SPCs that were incorporated nor shares of stock that were transferred to RSB in 2006 and 2007.

The real properties, although assigned to the incorporated SPCs or will be incorporated SPCs, are recognized by RSB as part of Investment Property on the basis that the SPCs are merely transitory holders of the assets while RSB is looking for ways to eventually dispose of such assets. This treatment is consistent with the letter of the BSP to RSB which emphasized that the dacioned properties be recorded as ROPA-Real Properties, and which were subsequently reclassified as Investment Property when RSB transitioned to PFRSs. In addition, the management of RSB believes that there is no transfer of risks and rewards over the properties as the management and control of these assets still rest with RSB.

13. OTHER RESOURCES

Other resources consist of the following:

	2007	2006
Deferred charges—net (see Note 9.2)	**₱ 9,337,949**	₱ 7,237,432
Foreign currency notes and coins on hand	**976,541**	695,958
Prepaid expenses	**365,510**	123,366
Returned checks and other cash items	**301,590**	126,282
Inter-office float items	**275,618**	363,369
Goodwill—net	**268,655**	268,655
Unused stationery and supplies	**126,834**	84,201
Non-current assets held for sale	**16,805**	16,805
Miscellaneous checks and other cash items	**5,340**	78,146
Miscellaneous	**3,004,662**	2,114,011
	14,679,504	11,108,225
Allowance for impairment	**(458,184)**	(498,121)
	₱ 14,221,320	₱ 10,610,104

Deferred charges mainly represent the unamortized balance of the required additional allowance for impairment and losses as determined from the asset exchanges of the Parent Company's NPAs to certain SPVs; these are amortized over a period of 10 years in accordance with BSP Resolution No. 135 (see Note 9.2). In addition, this account also includes the cost of software, net of accumulated amortization. The following shows the movement in the Group's Deferred Charges account.

	2007	**2006**
Balance at beginning of period		
As previously stated	**₱ 9,791,124**	₱ 7,699,783
Prior period adjustment	**—**	(83,949)
As restated	**9,791,124**	7,615,834
Additions during the period	**2,257**	4,452
Amortization during the period	**(455,432)**	(382,854)
	₱ 9,337,949	₱ 7,237,432

14. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized as follows:

	2007	**2006**
Balance at beginning of period		
Loans and receivables	**₱ 10,394,956**	₱ 12,212,727
Available-for-sale securities	**549,088**	559,582
Investment in associates	**52,500**	52,500
Investment property	**1,546,005**	1,734,227
Other resources	**332,437**	150,062
	12,874,986	14,709,098
Impairment losses during the period	**1,225,533**	1,438,980
Charge-offs during the period	**(999,183)**	(3,200,523)
Balance at end of period		
Loans and receivables	**10,503,693**	10,384,925
Available-for-sale securities	**829,923**	540,143
Investment in associates	**52,743**	52,500
Investment property	**1,256,793**	1,471,866
Other resources	**458,184**	498,121
	₱ 13,101,336	₱ 12,947,555

15. DEPOSIT LIABILITIES

The following is the breakdown of the deposit liabilities:

	2007	**2006**
Demand	**₱ 9,714,817**	₱ 9,693,777
Savings	**61,670,965**	56,607,750
Time	**86,525,658**	83,664,480
	₱ 157,911,440	₱ 149,966,007

The maturity profile of the deposit liabilities follows:

	2007	**2006**
Within one year	**₱ 153,762,319**	₱ 135,178,109
Beyond one year, within five years	**4,149,121**	14,787,898
	₱ 157,911,440	₱ 149,966,007

Deposit liabilities are in the form of savings, demand and time deposit accounts with annual interest rates of 0.5% to 4.25% and 1.0% to 5.75% per annum in 2007 and 2006, respectively.

Under existing BSP regulations, non-FCDU deposit liabilities of the Group are subject to liquidity reserves equivalent to 11% and regular reserves of 10%. As of September 30, 2007 and 2006, the Group is in compliance with such regulations.

Available reserves as of September 30, 2007 and 2006 follow:

	2007	2006
Cash and other items	**₱ 4,820,134**	₱ 4,463,853
Due from BSP	**6,945,257**	5,254,685
Reserve deposit account (BSP)	**9,598,000**	4,100,000
Available-for-sale securities	**572,617**	5,179,364
	₱ 21,936,008	₱ 18,997,902

16. BILLS PAYABLE

This account consists of borrowings from:

	2007	2006
Foreign banks	**₱ 15,923,835**	₱ 13,094,710
BSP	**610,675**	1,711,299
Local banks	**215,503**	86,871
Others	**81,502**	254,249
	₱ 16,831,515	₱ 15,147,129

The maturity profile of bills payable follows:

	2007	2006
Within one year	**₱ 12,899,814**	₱ 11,561,129
Beyond one year, within five years	**3,931,701**	3,586,000
	₱ 16,831,515	₱ 15,147,129

Interbank borrowings with foreign banks are mainly short-term borrowings. Peso borrowings are subject to fixed interest rates ranging from 5% to 12% per annum in 2007 and 2006, while foreign currency-denominated borrowings are subject to annual fixed interest rates ranging from 2% to 8.41% and 2.5% to 8.32% per annum in 2007 and 2006, respectively.

Bills payable include rediscounting availments from the BSP amounting to ₱73,398 and ₱124,266 as of September 30, 2007 and 2006, respectively. Such investments are collateralized by the assignment of certain loans amounting to ₱79,935 and ₱152,981 as of September 30, 2007 and 2006, respectively.

17. BONDS PAYABLE

On February 23, 2005, the Parent Company issued to local and foreign entities (excluding those in the United States of America) unsecured bonds (Global Notes) with a principal amount of US$150,000 at an issue price at 99.67% and bearing an interest of 6.875% per annum. The Global Notes, unless previously redeemed or cancelled, will be redeemed on February 24, 2010. The Parent Company, at the option of the holder of the Global Notes, will redeem the Global Notes on February 23, 2008 at its principal amount. Interest will be payable semi-annually in arrears on February 23 and August 23 of each year commencing on August 23, 2005, except that the last payment of the interest will be on February 24, 2010. As of September 30, 2007 and 2006, the peso equivalent of the outstanding bond issue amounted to ₱6,159,824 and ₱6,846,733, respectively.

18. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

The composition of this account follows:

	2007	2006
Accrued interest payable	**₱ 830,584**	₱ 757,280
Accrued taxes payable	**161,011**	127,085
Others	**1,402,469**	1,337,831
	₱ 2,394,064	₱ 2,222,196

19. OTHER LIABILITIES

Other liabilities consist of the following:

	2007	2006
Accounts payable	**₱ 1,684,289**	₱ 1,491,775
Bills purchased—contra	**1,239,879**	558,784
Derivatives with negative fair values (see Note 6)	**889,174**	332,027
Manager's checks	**841,663**	906,418
Unearned income	**639,825**	691,815
Payment orders payable	**189,951**	162,773
Other credits	**128,918**	140,873
Withholding taxes payable	**111,701**	104,078
Due to BSP	**70,941**	63,231
Sundry credits	**45,278**	209,041
Guaranty deposits	**44,745**	77,512
Miscellaneous	**2,602,684**	4,433,961
	₱ 8,489,048	₱ 9,172,288

20. SUBORDINATED DEBT

On June 20, 2003, the Parent Company's BOD approved the issuance of P5 billion unsecured subordinated notes (the "Notes") with the following significant terms and conditions:

a. The Notes shall mature on July 11, 2013, provided that they are not previously redeemed.

b. Subject to satisfaction of certain regulatory approval requirements, the Parent Company may, on July 11, 2008, redeem all of the outstanding notes at redemption price equal to 100% of the face value of the Notes together with accrued and unpaid interest thereon.

c. The Notes bear interest at the rate of 12% per annum and shall be payable semi-annually on January 11 and July 11 each year, commencing January 11, 2004.

d. Unless the Notes are previously redeemed, the interest rate from 2008 to 2013 will be reset at the equivalent of the five-year MART1 FXTN as of July 11, 2008 multiplied by 80% plus 5.59% per annum. Such stepped-up interest shall be payable semi-annually commencing 2009.

The Notes were issued on July 11, 2003 and were fully subscribed. The subordinated debt is measured at fair value at each statement of condition date. The fair value was determined through valuation techniques using market inputs.

21. MATURITY PROFILE OF FINANCIAL RESOURCES AND FINANCIAL LIABILITIES

The following tables present other financial resources and liabilities accounts (not disclosed elsewhere) by contractual maturity and settlement dates as of September 30, 2007 and 2006.

	2007			2006		
Financial Resources	**Due Within One Year**	**Due Beyond One Year**	**Total**	**Due Within One Year**	**Due Beyond One Year**	**Total**
Due from BSP	**₱ 16,741,215**	**₱ —**	**₱ 16,741,215**	₱ 9,947,989	—	₱ 9,947,989
Due from other banks	**3,998,322**	**—**	**3,998,322**	5,532,852	—	5,532,852
Other Resources:						
Foreign currency notes and coins on hand	**976,541**	**—**	**976,541**	695,958	—	695,958
Returned checks and other cash items	**301,590**	**—**	**301,590**	126,282	—	126,282
Miscellaneous checks and other cash items	**5,340**	**—**	**5,340**	78,146	—	78,146
Inter-office float items	**275,618**	**—**	**275,618**	363,369	—	363,369
Miscellaneous	**3,004,662**	**—**	**3,004,662**	2,114,011	—	2,114,011
	₱ 25,303,288	**₱ —**	**₱ 25,303,288**	₱ 18,858,607	₱—	₱18,858,607

Financial Liabilities	2007 Due Within One Year	2007 Due Beyond One Year	2007 Total	2006 Due Within One Year	2006 Due Beyond One Year	2006 Total
Outstanding acceptances payable	**₱ 309,275**	**₱ —**	**₱ 309,275**	₱ 179,537	₱ —	₱ 179,537
Due to other banks	**2,149**	**—**	**2,149**	1,656,098	—	1,656,098
Accrued taxes, interest and other expenses	**2,394,064**	**—**	**2,394,064**	2,222,196	—	2,222,196
Other Liabilities						
Accounts payable	**1,684,289**	**—**	**1,684,289**	1,491,775	—	1,491,775
Bills purchased—contra	**1,239,879**	**—**	**1,239,879**	558,784	—	558,784
Manager's checks	**841,663**	**—**	**841,663**	906,418	—	906,418
Sundry credits	**45,278**	**—**	**45,278**	209,041	—	209,041
Unearned income	**—**	**639,825**	**639,825**	—	691,815	691,815
Payment orders payable	**189,951**	**—**	**189,951**	162,773	—	162,773
Withholding taxes payable	**111,701**	**—**	**111,701**	104,078	—	104,078
Guaranty deposits	**44,745**	**—**	**44,745**	77,512	—	77,512
Due to BSP	**70,941**	**—**	**70,941**	63,231	—	63,231
Miscellaneous	**2,602,684**	**—**	**2,602,684**	4,433,961	—	4,433,961
Subordinated debt	**—**	**5,220,270**	**5,220,270**		5,403,633	5,403,633
Bonds payable	**—**	**6,159,824**	**6,159,824**	—	6,846,733	6,846,733
	₱ 9,536,619	**₱12,019,919**	**₱21,556,538**	₱12,065,404	₱12,942,181	₱25,007,585

22. CAPITAL FUNDS

22.1 Capital Stock

	Shares 2007	Shares 2006	Amount 2007	Amount 2006
Preferred stock—voting non-cumulative non-redeemable, participating convertible into common shares—₱10 par value Authorized—200,000,000 shares Issued and outstanding	**85,962**	—	**₱ 859,626**	₱ —
Common stock—₱10 par value Authorized—1,100,000,000 shares Issued and outstanding	**962,832**	632,964	**₱9,628,328**	₱6,329,640

On January 22, 2007, the Parent Company stockholders, owning or representing more than 2/3 of the outstanding capital stock, unanimously confirmed and ratified the approval by the majority of the BOD held on December 4, 2006, the increase of the Parent Company's authorized capital stock from ₱9,000,000 to ₱13,000,000, by amending its Articles of Incorporation. The increase in authorized capital stock of the Parent Company was approved by the BSP and SEC on February 12, 2007 and March 2, 2007, respectively. The authorized capital of the Parent Company of ₱13 billion is divided into the following classes of shares:

a. One billion one hundred million (1,100 million) common shares of stock with par value of ten pesos (₱10.00) per share; and,

b. Two hundred million (200 million) preferred shares of stock with par value of ten pesos (₱10.00) per share.

On May 29, 2006, the Parent Company's stockholders approved the issuance of up to 200,000 thousand convertible preferred shares with a par value of ₱10 per share, subject to the approval, among others of the PSE. The issuance of the convertible preferred shares was also approved by the Parent Company's stockholders on May 29, 2006. The purpose of the issuance of the preferred shares is to raise the Tier 1 capital pursuant to BSP regulations, thereby strengthening the capital base of the Parent Company and allowing it to expand its operations. On February 13, 2007, the PSE approved the listing application of the underlying common shares for the 105,494 thousand convertible preferred shares, subject to the compliance of certain conditions of the PSE. Preferred shares have the following features:

a. Entitled to dividends at floating rate equivalent to the applicable base rate plus spread of 2% per annum, calculated quarterly;

b. Convertible to common stocks at any time after the issue date at a conversion price using the adjusted net book value per share of the Parent Company based on the latest available financial statements prepared in accordance with PFRS adjusted by local regulations;

c. Non-redeemable; and,

d. Participating as to dividends on a pro-rate basis with the common stockholders in the Surplus of the Parent Company after dividends payments had been made to the preferred shares.

As of September 30, 2007, the conversion of preferred shares to common shares amounted to ₱195 million, or 19,531,357 preferred shares equivalent to 10,455,645 common shares.

The features of the preferred shares in 2004 which was reclassified to financial liabilities starting in 2005 in accordance with PAS 32, *Financial Instruments: Presentation*, are as follows: entitled to cumulative dividends at floating rate based on the weighted average rate of 91-day treasury bill rate; nonconvertible; redeemable five years from date of issue subject to prior approval of the BSP and the shares to be redeemed are replaced with at least an equivalent amount of newly paid-in shares; and non-participating and non-voting. The preferred shares amounting to ₱1,800 is presented as part of Other Liabilities in the consolidated statements of condition as of September 30, 2007 and 2006.

Common shares may be transferred to Philippine and foreign nationals and shall, at all times, not be less than 60% and not more than 40% of the voting stock, be beneficially owned by Philippine nationals and by foreign nationals, respectively.

The determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) required and reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects. Specifically, under existing banking regulations, the combined capital accounts of the Parent Company should not be less than an amount equal to 10% of its risk weighted assets (see Note 22.4).

A portion of the Group's surplus corresponding to the undistributed income of subsidiaries and equity in net earnings of certain associates totaling ₱1,080,868 and ₱307,067 as of September 30, 2007 and 2006, respectively, is not currently available for distribution as dividends.

22.2 Declaration of Stock Dividends

The shareholders confirmed and ratified the approval by the majority of the BOD during the December 4, 2006 meeting, 15% stock dividends corresponding to 110,769 thousand shares, to support the foregoing increase of authorized capital stock, payable to holders of common and preferred class shares of record at the close of business on the 15th trading date from receipt of the approval of BSP and SEC of the payment of the stock dividend.

The declaration of 15% stock dividends was approved by the BSP on January 26, 2007 and by the SEC on March 8, 2007.

22.3 Cash Dividend Declaration

The details of the cash dividend distributions follow:

	Dividend		Stockholders of	Date Approved by		Date
Date Declared	**Per Share**	**Total Amount**	**Record as of**	**BOD**	**BSP**	**Paid/Payable**
August 1, 2005	₱ 0.30	₱ 189,889	February 6, 2007	August 1, 2005	January 16, 2007	February 7, 2007
March 26, 2007	₱ —	₱ 234,210	—	March 26, 2007	April 26, 2007	April 26, 2007
March 26, 2007	₱ 0.184125	₱ 15,835	March 21, 2007	March 26, 2007	May 2, 2007	May 4, 2007
May 28, 2007	₱ 0.1878	₱ 15,994	June 21, 2007	May 28, 2007	July 13, 2007	July 18, 2007
June 25, 2007	₱ 0.35	₱ 367,079	September 12, 2007	June 25, 2007	August 30, 2007	September 24, 2007
July 30, 2007	₱ 0.1881	₱ 15,966	September 21, 2007	July 30, 2007	October 5, 2007	October 18, 2007
July 30, 2007	₱ —	₱ 217,546	—	July 30, 2007	October 5, 2007	October 26, 2007
October 30, 2007 . . .	₱ 0.1829	₱ 15,727	December 21, 2007	October 30, 2007	January 4, 2008	January 10, 2008

22.4 Qualifying Capital and Risk Based Capital

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to 10% of its risk weighted assets for both solo basis and consolidated basis. The qualifying capital of the Group for purposes of determining the capital-to-risk assets ratio is total capital funds excluding:

a. unbooked valuation reserves and other capital adjustments as may be required by the BSP;

b. total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI);

c. deferred income tax;

d. goodwill; and

e. other regulatory deductions.

Risk-weighted assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP, plus capital charges for market risks. Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio (CAR) is to be inclusive of a market risk change. As of September 30, 2007 and 2006, CAR were determined to be 18.79% and 15.54%, respectively.

The BSP issued on June 2, 2006 major revisions to the risk-based capital adequacy framework which took effect on July 1, 2007 to align existing framework to international standards. The revisions made the capital framework more risk sensitive with the addition of specific capital requirements for operational risks. In addition, this new capital standard puts emphasis on bank's own risk assessment, supervisory review and the important role that disclosures play.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

As of the date of the consolidated statement of condition, the Parent Company has complied with the above requirement on the ratio of combined capital accounts against the risk weighted assets.

22.5 Minimum Capital Requirement

Under an existing BSP circular, expanded commercial banks are required to comply with the minimum capital requirement of ₱4,950,000.

As of the date of the consolidated statement of condition, the Parent Company has complied with the above capitalization requirement.

23. HYBRID PERPETUAL SECURITIES

On October 30, 2006, the Parent Company received the proceeds from the issuance of Non-Cumulative Step-Up Callable Perpetual Securities ("Perpetual Securities") amounting to US$98.045 million net of fee and other charges. Net proceeds were used to strengthen the capital adequacy ratio of the Parent Company, repay certain indebtedness and, thereby, enhance its financial stability and for general corporate purposes. The issuance of the Perpetual Securities was approved by the Parent Company's BOD on June 7, 2006.

The Perpetual Securities represent US$100 million, 9.875%, non-cumulative step-up callable perpetual securities issued in pursuant to a trust deed dated October 27, 2006 between the Parent Company and Bank of New York—London Branch each with a liquidation preference of US$1 thousand per US$1 thousand in principal amount of the Perpetual Securities. The actual listing and quotation of the Perpetual Securities in a minimum board lot size of US$1 hundred with the Singapore Exchange Securities Trading Limited ("SGX-ST") occurred on November 1, 2006. The Perpetual Securities were issued in pursuant to BSP Circular 503 dated December 22, 2005 allowing the issuance of perpetual, non-cumulative securities up to US$125 million which are eligible to qualify as Hybrid Tier 1 Capital.

The significant terms and conditions for the issuance of the Perpetual Securities, among others, follow:

a. Interest will be paid from and including October 27, 2006 (the "issue date") to (but excluding) October 27, 2016 (the "First Optional Redemption Date") at a rate of 9.875% per annum payable semi-annually in arrears from April 27, 2007 and, thereafter at a rate preset and payable quarterly in arrears, of 7.02% per annum (which incorporates a step-up in margin equal to 1% above the initial credit spread after adjusting for the applicable swap spread) above the then prevailing London interbank offered rate ("LIBOR") for three-month US dollar deposits;

b. Except as described below, interest will be payable on April 27 and October 27 in each year, commencing on April 27, 2007 and ending on the First Optional Redemption Date, and thereafter (subject to adjustment for days which are not business days) on January 27, April 27, July 27, October 27 in each year commencing on January 27, 2016;

c. The Parent Company may, in its absolute discretion, elect not to make any interest payment in whole or in part if the Parent Company has not paid or declared a dividend on its common shares in the preceding financial year; or determines that no dividend is to be paid on such shares in the current financial year;

d. The rights and claims of the holders will be subordinated to the claims of all senior creditors (as defined in the conditions) and the holders of any priority preference shares (as defined the conditions), in that payments in respect of the securities are conditional upon the Parent Company being solvent at the time of payment and in that no payments shall be due except to the extent the Parent Company could make such payments and still be solvent immediately thereafter;

e. The Perpetual Securities are not deposits of the Parent Company and are not guaranteed or insured by the Parent Company or any party related to the Parent Company or the Philippine Deposit Insurance Corporation and they may not be used as collateral for any loan made by the Parent Company or any of its subsidiaries or affiliates;

f. The Parent Company undertakes that, if on any Interest Payment Date payment of all Interest Payments scheduled to be made on such date is not made in full it shall not declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, any junior share capital or any parity security, and it shall not redeem, repurchase, cancel, reduce or otherwise acquire any junior share capital or any parity securities, other than in the case of any partial interest payment, pro rata payments on, or redemptions of, parity securities the dividend and capital stopper shall remain in force so as to prevent the Parent Company from undertaking any such declaration, payment or other activity as aforesaid unless and until a payment is made to the holders in an amount equal to the unpaid amount (if any) of interest payments in respect of interest periods in the twelve months including and immediately preceding the date such interest payment was due and the BSP does not otherwise object; and,

g. The Perpetual Securities will have fixed or final redemption date although the Parent Company may, having given not less than 30 nor more than 60 days' notice to the Trustee, the Registrar, the Principal Paying Agent and the Holders, redeem all (but not some only) of the securities (i) on the first optional redemption date; and (ii) on each interest payment date thereafter, at an amount equal to the liquidation preference plus accrued interest.

Considering the above terms and conditions for the issuance of the Perpetual Securities, the Parent Company has determined that the proper classification of these securities is under Capital Funds.

24. EMPLOYEE BENEFITS

Expenses recognized for employee benefits are analyzed below:

	2007	2006
Salaries and wages	**₱1,060,229**	₱1,022,583
Bonuses	**315,933**	295,931
Compensated absences	**58,885**	72,854
Retirement—defined benefit plan	**97,379**	80,620
Social security costs	**48,927**	43,309
Other short-term benefits	**232,998**	158,052
	₱1,814,351	₱1,673,349

The Parent Company and its subsidiaries maintain a tax-qualified, noncontributory retirement plan that is being administered by a trustee covering all of their respective regular full-time employees.

The amounts of retirement benefit asset (presented as part of Other Resources—Miscellaneous) recognized in the consolidated financial statements are determined as follows:

	2007	2006
Fair value of plan assets	**₱ 1,639,532**	₱1,379,624
Present value of the obligation	**(1,467,460)**	(984,329)
Excess of plan assets	**172,072**	395,295
Retirement due to ceiling	**(11,201)**	(63,549)
Unrecognized net transition assets	**16,060**	68,606
Unrecognized actuarial gains	**(171,328)**	(366,483)
Retirement benefit asset	**₱ 5,603**	₱ 33,869

The amounts of retirement benefit expense recognized in the consolidated income statements are as follows:

	2007	2006
Current service costs	**₱ 85,775**	₱ 46,295
Interest costs	**86,080**	75,566
Expected return on plan assets	**(84,479)**	(66,915)
Net transition obligation recognized	**17,228**	28,771
Retirement income due to ceiling	**(7,262)**	—
Net actuarial losses (gains) recognized during the year	**37**	(3,097)
Retirement benefit expense	**₱ 97,379**	₱ 80,620

For determination of the pension liability, the following actuarial assumptions were used:

	2007	2006
Discount rates	**7.85%-8.35%**	6.64%-12.00%
Expected rate of return on plan assets	**8.00%-10.17%**	8.00%-10.00%
Expected rate of salary increases	**3.00%-10.00%**	2.50%-10.00%

25. LEASE CONTRACTS

The Parent Company and certain subsidiaries lease some of the premises occupied by their respective branches/business centers. The Group's rental expense (included in Occupancy and Equipment-Related account in the consolidated income statements) based on the lease contracts amounted to ₱328 million and ₱307 million for the nine months ended September 30, 2007 and 2006, respectively. The lease periods are from 1 to 25 years. Most of the lease contracts contain renewal options, which give the Parent Company and its subsidiaries the right to extend the lease on terms mutually agreed upon by both parties.

As of September 30, 2007, future minimum rentals payable under non-cancelable operating leases follow:

Within one year	**₱ 356,213**
After one year but not more than five years	**942,620**
More than five years	**161,713**
	₱1,460,547

26. INCOME AND OTHER TAXES

Under Philippine tax laws, the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the consolidated income statements), as well as income taxes. Percentage and other taxes paid consist principally of the gross receipts tax (GRT) and documentary stamp taxes.

The liability of the Parent Company and certain subsidiaries for GRT is based on the related regulations issued by the authorities. Income taxes include the corporate income tax discussed below, and final tax paid at the rate of 20%, which represents the final withholding tax on gross interest income from government securities and other deposit substitutes.

Under current tax regulations, the regular corporate income tax rate (RCIT) applicable is 32% up to October 31, 2005, 35% up to December 31, 2008, and will be reduced to 30% thereafter. Interest allowed as a deductible expense is reduced by an amount equivalent to certain percentage of interest income subjected to final tax. Minimum corporate income tax (MCIT) of 2% on modified gross income is computed and compared with the regular corporate income tax. Any excess of the MCIT over the regular corporate income tax is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the Group net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three years.

Effective May 2004, Republic Act No. 9294 restored the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency transactions with nonresidents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% gross income tax.

Interest income on deposits with other FCDUs and offshore banking units is subject to 7.5% final tax.

The Parent Company's foreign subsidiaries are subject to income and other taxes based on the enacted tax laws of the countries where they operate.

The components of tax expense as reported in the consolidated income statements consist of:

	2007	**2006**
Current:		
RCIT	**₱ 62,408**	₱ 79,681
MCIT	**92,011**	25,505
Final withholding tax	**329,721**	253,960
Deferred tax expense (income)	**(79)**	52
Tax expense reported in the consolidated income statements	**₱484,061**	₱359,198

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

	2007	**2006**
Statutory income tax at 35%	**₱1,058,133**	₱ 476,638
Adjustments for income subject to lower income tax rates	**8,232**	112,339
Tax effects of:		
Unrecognized deductible temporary differences	**(6,772)**	407,698
Income subjected to final tax	**(364,486)**	(363,394)
Non-taxable income	**(608,987)**	(539,821)
Non-deductible expenses	**973**	107,994
Non-deductible interest expense	**161,530**	154,378
Others	**235,438**	3,366
Tax expense reported in the consolidated income statements	**₱ 484,061**	₱ 359,198

The components of deferred tax assets as of September 30 follow:

	2007	**2006**
Allowance for impairment	**₱1,636,807**	₱1,827,340
Unamortized past service costs	**4,837**	5,704
Unrealized foreign exchange losses	**1,554**	924
	₱1,643,198	₱1,833,968

The balance of Surplus as of January 1, 2006 has been restated from the amount previously reported to derecognize the additional deferred tax assets amounting to ₱214,060 previously recorded in 2005 and to write-off the existing balance of the deferred tax assets as of December 31, 2004 amounting to ₱303,944 or a total of ₱518,004. The restatement resulted into a decrease in previously reported Surplus and Deferred Tax Assets as of December 31, 2005 by ₱518,004.

The Group did not set up deferred tax liabilities on accumulated translation adjustments, particularly those relating to its foreign subsidiaries, since their reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

In light of the provision of PAS 12 Income taxes, the Parent Company and certain subsidiaries have taken a conservative position by not recognizing deferred tax assets (liabilities) on certain temporary differences. Accordingly, the Group did not set up the deferred tax assets on the following temporary differences:

	2007	**2006**
NOLCO	**₱15,720,739**	₱10,522,438
Allowance for impairment	**8,372,245**	7,674,084
MCIT	**287,757**	150,719
Unamortized past service cost	**(207,610)**	(127,265)
	₱24,173,131	₱18,219,976

The breakdown of the Group's NOLCO, which can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred, is shown below:

Inception Period	**Amount**	**Expiry Period**
2004	₱ 5,306,613	2007
2005	3,629,720	2008
2006	6,784,406	2009
	₱15,720,739	

As of September 30, 2007, the Group has MCIT of ₱287,757 that can be applied against RCIT for the next three consecutive years after the MCIT was incurred. The breakdown of MCIT with the corresponding validity periods follow:

Inception Period	**Amount**	**Expiry Period**
2004	₱ 35,270	2007
2005	67,302	2008
2006	93,173	2009
2007	92,012	2010
	₱287,757	

27. TRUST OPERATIONS

Securities and properties (other than deposits) held by the Parent Company and RSB in fiduciary or agency capacities for their respective customers are not included in the accompanying consolidated financial statements, since these are not resources of the Parent Company and RSB. The Group's trust total resources amounted to ₱56,429,801 and ₱42,858,292 as of September 30, 2007 and 2006, respectively.

In connection with the trust operations of the Parent Company and RSB, government securities with a total face value of ₱675,967 and ₱583,000 for the Group as of September 30, 2007 and 2006, respectively, are deposited with the BSP in compliance with existing trust regulations.

In compliance with existing BSP regulations, 10% of the Parent Company's and RSB's profit from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust business equals 20% of the Parent Company's and RSB's regulatory capital. The surplus reserve is shown as Reserve for Trust Business in the consolidated statements of changes in capital funds.

28. RELATED PARTY TRANSACTIONS

28.1 DOSRI

In the ordinary course of business, the Group has loan transactions with each other, their other affiliates, and with certain directors, officers, stockholders, and related interests (DOSRIs). Under existing policies of the Group, these loans are made substantially on the same terms as loans to other individuals and business of comparable risks.

Under current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of his deposit and book value of his investment in the Parent Company and/or any of its lending and nonbanking financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total capital funds or 15% of the total loan portfolio of the Parent Company and/or any of its lending and nonbanking financial subsidiaries, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts.

The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said circular and new DOSRI loans, other credit accommodations and guarantees granted under said circular as of September 30, 2007 and 2006:

	2007	2006
Total outstanding DOSRI loans	**₱10,233,001**	₱12,608,936
Percent of DOSRI accounts granted prior to the effectivity of BSP Circular No. 423 to the total loans	**9.11%**	9.46%
Percent of DOSRI accounts to total loans	**9.23%**	11.93%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**1.91%**	3.05%
Percent of past due DOSRI accounts to total DOSRI accounts	**—**	—
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	**—**	—

The following table shows information as of September 30, 2007 and 2006 relating to the loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered DOSRI accounts prior to the issuance of said circular but are considered DOSRI accounts under Circular No. 423 which allowed a transition period of two years from the effectivity of said circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

	2007	2006
Total outstanding non-DOSRI loans accounts prior to BSP Circular No. 423	**₱ 130,000**	₱ 2,611,555
Percent of unsecured non-DOSRI accounts prior to BSP Circular No. 423 to total loans	**0.04%**	2.39%
Percent of past due DOSRI accounts prior to BSP Circular No. 423 to total loans	**—**	—
Percent of nonaccruing non-DOSRI accounts prior to BSP Circular No. 423 to total loans	**—**	—

28.2 Key Management Personnel Compensation

The details of the key management personnel compensation follow:

	2007	2006
Short-term benefits	**₱ 107,453**	₱ 80,861
Post-employment benefits	**38,307**	49,050
Termination benefits	**—**	561
Other long-term benefits	**1,616**	489
	₱ 147,376	₱ 130,961

29. COMMITMENTS AND CONTINGENCIES

In the normal course of operations of the Group, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, tax assessments, etc., which are not reflected in the accompanying consolidated financial statements. Management does not anticipate losses from these transactions that will adversely affect the Group's operations.

Several suits and claims remain unsettled. In the opinion of management, the suits and claims, if decided adversely, will not involve sums with a material effect on the Parent Company and its subsidiaries' financial position or operating results.

The following is a summary of contingencies and commitments arising from off-statement of condition items at their equivalent peso contractual amounts as of September 30, 2007 and 2006:

	2007	2006
Trust department accounts	**₱ 56,429,801**	₱ 42,858,292
Forward exchange sold	**12,354,283**	10,457,350
Forward exchange bought	**8,981,854**	14,319,661
Unused commercial letters of credit	**6,330,697**	6,873,233
Spot exchange sold	**3,284,854**	2,376,578
Spot exchange bought	**2,850,071**	2,456,704
Inward bills for collection	**1,148,507**	2,350,710
Outstanding guarantees issued	**990,816**	1,218,963
Late deposits/payments received	**340,913**	1,093,481
Outward bills for collection	**146,898**	153,231
Traveler's check unsold	**23,347**	30,127
Items held for safekeeping /collateral	**88,111**	1,040

Forward exchange sold includes the Parent Company's outstanding long-term cross currency swap contracts wherein it is committed to sell US dollars and buy Philippine pesos in the future at a precontracted rate from two counterparty banks, with an aggregate notional amount of ₱4,614,059 or $93,553 and ₱5,009,323 or $93,553 as of September 30, 2007 and 2006, respectively. The Parent Company then invested the proceeds from the cross currency swap contracts in interbank placements with various foreign banks. The US dollar placements have a "credit link" to underlying securities that would be received by the Parent Company in lieu of the US dollar funds it originally invested in case of a credit default event as defined in the agreement between the Parent Company and its counterparties.

In 2004, the Bureau of Internal Revenue (BIR) assessed the Parent Company and RSB, together with a number of other banks in the Philippines, for documentary stamp tax (DST) in connection with its special savings accounts. The BIR has claimed that such account is equivalent to a "certificate of deposit" for tax purposes and is subject to DST under local tax regulations. The BIR has assessed the Parent Company the basic tax, surcharges, penalties and interest thereon of 20% per annum with respect to DST payable over the past five years. The Parent Company initially filed a protest against this assessment, however, in 2006, the Parent Company and RSB settled the tax assessment on DST through availment of the tax abatement program of the BIR.

The BIR has also sent the Parent Company and RSB, as well as other banks, a series of demand letters for the payment of deficiency GRT and DST on certain accounts of the Parent Company's FCDU. The BIR's assessment of the deficiency GRT and DST of the FCDU was based on the deletion of the phrase "shall be exempt from all taxes" in Section 24, now Sections 27 and 28 of the Philippine Tax Code. The Parent Company, however, argued that the removal of the exemptions from GRT and DST was not contemplated under the Comprehensive Tax Reform Program and that the deletion of the phrase "shall be exempt from all taxes" is the result of the inaccurate drafting of the amendment of the tax provisions of FCDUs rather than of legislative intent. The Parent Company has filed a protest to the BIR's claim, however, in 2007, the Parent Company and RSB settled the tax assessment on GRT and DST through availment of the tax abatement program of BIR.

RCBC Capital has filed an arbitration claim with the International Chamber of Commerce against a local bank relating to RCBC Capital's acquisition of Bankard. RCBC Capital is seeking a rescission of the sale or compensation for damages. In September 2007, the arbitral tribunal upheld the claim of RCBC Capital and stated that RCBC Capital is entitled to damages for the breach, the amount of which would be determined by an expert recently appointed by the arbitral tribunal.

30. EARNINGS PER SHARE

The following reflects the income and per share data used in the basic and diluted EPS computations (figures in thousands, except EPS data):

	2007	2006
Basic Earnings Per Share		
a. Net income attributable to common shares:		
Net income	**₱ 2,522,124**	₱ 1,158,814
Less allocated for preferred and Hybrid Tier 1 dividends	**(398,150)**	(—)
	2,123,974	1,158,814
b. Weighted average number of outstanding common shares	**891,292**	632,964
c. Basic EPS (a/b)	**₱ 2.38**	₱ 1.83
Diluted Earnings Per Share		
a. Net income attributable to common shares	**₱ 2,123,974**	₱ 1,158,814
b. Weighted average number of outstanding common shares	**922,285**	632,964
c. Diluted EPS (a/b)	**₱ 2.30**	₱ 1.83

The above EPS was computed after giving retroactive effect to the 15% stock dividends (see Note 22).

The above computation does not take into consideration the effects of certain accounting treatment allowed by BSP but not allowed under PFRS as discussed and summarized in Notes 9 and 34, respectively.

31. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

	2007	2006
Return on average capital funds (ROE)	**9.45%**	8.08%
Return on average assets (ROA)	**1.13%**	0.59%
Net interest margin	**3.79%**	3.82%

The foregoing computation does not take into consideration the effects of certain accounting treatment allowed by BSP but not allowed under PFRS as discussed and summarized in Notes 9 and 34, respectively.

32. RISK MANAGEMENT POLICIES AND OBJECTIVES

32.1 Parent Company's Policies and Objectives

Strategy in Using Financial Instruments

By their nature, the Parent Company's activities are principally related to the use of financial instruments including derivatives with certain duration constraints. The Parent Company accepts deposits from customers at fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. Strategies to increase margins may include the use of short-term funds for investing in marketable fixed-income securities for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. The Parent Company has a small portfolio of equity securities.

Within limits and parameters set by BSP regulations, the Parent Company has interest rate, foreign exchange and credit derivatives exposure. Short-term foreign currency forward contracts are entered into mostly in the context of swap transactions where an offsetting spot position is taken at the same time. There are outstanding longer-term, cross-currency swaps where the Parent Company is committed to pay fixed-rate interest and principal in US dollars and is entitled to receive fixed-rate interest and principal in Pesos. The major portion of these closely match, in terms of interest rate characteristics, tenor and amount, the local currency Subordinated Debt issued in 2003 on the one hand, and certain foreign currency denominated assets on the other. Foreign currency-denominated assets include credit-linked notes where the underlying of the embedded derivative is Republic of the Philippines sovereign debt.

The Parent Company's Risk Management Committee has overall responsibility for the Parent Company's risk management system and sets risks management policies across the full range of risks to which the Parent Company is exposed. The Parent Company's Risk Management Committee, subject to BOD confirmation, places limits on the level of exposure that can be taken positions.

Credit Risk

Credit risk is the risk that the counterparty in a transaction may default, and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the Parent Company. The Parent Company manages its credit risk through a system of policies, processes and authorities that underlie the practices of all credit-originating and borrowing relationship management units. In developing and implementing these, senior management is assisted by the Credit Risk Division (CRD) under the Corporate Risk Management Services Group (CRISMS), which is independent of the risk-taking units of the Parent Company.

CRD assists senior management, in that regard: (a) to develop portfolio mix and risk profile objectives; (b) to establish risk concentration limits accepted at the level of the single borrower, related-borrower group, domestic geography, industry segments, and sovereign jurisdiction; and (c) by continuous monitoring of the actual credit risk portfolio from the perspective of those objectives and limits. In performing this function, CRD works hand in hand with the business units and the Parent Company's Corporate Planning Group.

At the individual borrower level, exposure to credit risk is managed via adherence to a set of policies, the most notable features of which, in this context, are: (a) credit approving authority, except as noted below, is not exercised by a single individual but rather, through a hierarchy of limits, is effectively exercised collectively; (b) branch managers have limited approval authority only for credit exposure related to deposit-taking operations in the form of bills purchased; (c) an independent credit risk assessment by CRD of large corporate and middle-market borrowers, summarized into a borrower risk rating, is provided as input to the credit decision-making process; and (d) borrower credit analysis is performed at origination and at least annually thereafter.

Impairment provisions are recognized for losses that have been incurred at the statement of condition date. Significant changes in the economy, or in a particular industry segments that represents a concentration in the Parent Company's portfolio, could result in losses that are different from those provided for at the statement of condition date. Management therefore carefully monitors the changes and adjusts its exposure to such credit risk, as necessary.

Market and Liquidity Risk

The Parent Company's exposure to market risk, or to the risk of future losses from changes in the prices of financial instruments, relates primarily to its holdings of debt securities and derivatives. The Parent Company manages this risk by identifying, analyzing and measuring relevant market risk factors. Jointly with the risk taking units, the CRISMS recommends various limits to the Risk Management Committee, which in turn, recommends BOD approval of such limits. These include:

- Value-at-risk—this is computed at the 99% confidence level for a one-day holding period for foreign exchange positions and for a 10-day holding period for debt securities;
- Stop loss—for each trading position this is set as a percentage of the budgeted annual income for the relevant trading activity;
- Nominal position—the exposure limit in terms of the nominal outstanding amount; for the net foreign currency position the Parent Company adheres to the BSP-mandated overbought position limit;
- Off-market rate limit—defines the acceptable range of prices around the prevailing market rate, within which traders must deal;
- Single-transaction limit—the maximum amount of a single transaction that a duly authorized treasury trader may execute;
- Maximum cumulative outflow limit—the maximum net outflow for a specified time bracket in the schedule of maturing assets and liabilities prepared for liquidity management purposes; and
- Earnings-at-risk—the potential adverse impact of interest rate movements on net interest income, considering the interest rate repricing characteristics of the Parent Company's assets and liabilities.

The Asset/Liability Committee, composed of the Chief Executive Officer, the Corporate Vice-Chairman, the Chief Operating Officer, the Chairman of RSB, the President of RSB, and all senior executives in charge of business units and of financial control and corporate planning, oversees the market and liquidity risk management processes. Chaired by the Head of the Financial Markets Group, it meets weekly to: (a) be appraised of the Parent Company's market risk and liquidity position vis-a-vis the external environment,

(b) make asset/liability allocation, structure and pricing policy decisions, (c) be assured that no breaches of limits have occurred, or if any limit has been breached, to provide direction regarding the disposition of the relevant position; and (d) approve or endorse to the Executive Committee, as the case may be, transactions with significant market/ liquidity risk exposure or new products involving such risk exposure.

32.2 Foreign Exchange Risk

Net foreign exchange exposure is the difference between foreign currency assets and foreign currency liabilities. The Parent Company manages its exposure to the effects of fluctuations in the foreign currency exchange rates by limiting such exposure to within the existing regulatory guidelines and at levels that it believes to be relatively conservative for the size of its business. BSP regulations impose a cap of 2.5% of net worth, or US$5,000, whichever is lower, on the consolidated excess foreign exchange holdings of banks in the Philippines.

Internally, the Parent Company's foreign exchange exposure is also managed according to the limits approved by the BOD as endorsed by the Risk Management Committee. At the end of each day, the Parent Company reports to the BSP as its compliance with the regulatory foreign currency exposure limits. In addition, it also submits to the BSP the respective foreign currency positions of its subsidiaries.

In performing its functions as described above, the Asset/Liability Committee also oversees the management of the Parent Company's foreign exchange exposure.

A summary of the Group's significant financial resources and liabilities accounts as to foreign and peso denominated balances as of September 30, 2007 are as follows:

	2007		
	Foreign Currency	**Peso**	**Total**
Resources:			
Due from other banks	₱ 3,326,240	₱ 672,082	₱ 3,998,322
Financial assets at fair value fair value through profit or loss	5,543,044	8,274,634	13,817,678
Available-for-sale securities	29,807,141	15,774,560	45,581,701
Loans and receivables	33,684,816	78,363,672	112,048,488
Other resources	3,782,497	10,438,823	14,221,320
Liabilities:			
Deposit liabilities	41,091,112	116,820,328	157,911,440
Bills payable	16,375,876	455,639	16,831,515
Bonds payable	6,159,824	—	6,159,824
Other liabilities	3,968,834	4,520,214	8,489,048
Subordinated debt	—	5,220,270	5,220,270

	2006		
	Foreign Currency	**Peso**	**Total**
Resources:			
Due from other banks	₱ 5,091,954	₱ 440,898	₱ 5,532,852
Financial assets at fair value fair value through profit or loss	4,854,217	6,862,678	11,716,895
Available-for-sale securities	28,033,764	15,238,308	43,272,072
Held-to-maturity investments Loans and receivables	34,909,090	67,351,785	102,260,875
Other resources	3,376,085	7,234,019	10,610,104
Liabilities:			
Deposit liabilities	43,957,344	106,008,663	149,966,007
Bills payable	14,436,933	710,196	15,147,129
Bonds payable	6,846,733	—	6,846,733
Other liabilities	2,956,101	6,216,187	9,172,288
Subordinated debt	—	5,403,633	5,403,633

32.3 Subsidiaries Policies and Objectives

The Subsidiaries have essentially the same risk management policies and objectives as that of the Parent Company. The subsidiaries risk management is coordinated with the Parent Company, in close cooperation with their respective BOD.

33. CAPITAL MANAGEMENT

33.1 Regulatory Capital

The Group's lead regulator, BSP, sets and monitors capital requirements of the Parent Company and the Group as a whole.

In implementing current capital requirements, BSP requires the Parent Company and the Group to maintain a prescribed ratio of qualifying capital to risk-weighted assets. The Group calculates requirements for market risk in its trading portfolio based upon VaR models and uses its internal risk rating as the basis for risk weightings for credit risk.

Under the relevant provisions of the current BSP regulations, the regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital for the following:

a. Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;

b. Investments in debt capital instruments of unconsolidated subsidiary banks;

c. Investments in equity of subsidiary insurance companies and non-financial allied undertakings;

d. Reciprocal investments in equity of other banks/enterprises; and

e. Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks. Provided, That any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

Tier 1 Capital and Tier 2 Capital are defined as follows:

a. Tier 1 Capital includes the following:

   i. paid-up common stock,

   ii. paid-up perpetual and non-cumulative preferred stock,

   iii. common and perpetual, non-cumulative preferred stock dividends distributable,

   iv. surplus,

   v. surplus reserves,

   vi. undivided profits (for domestic banks only),

   vii. unsecured subordinated debt (with prior BSP approval), and,

   viii. minority interest in the equity of subsidiary financial allied undertakings

   Subject to deductions for:

   i. treasury shares,

   ii. unrealized losses on underwritten listed equity securities purchased,

   iii. unbooked valuation reserves, and other capital adjustments based on the latest report of examination,

   iv. outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI),

   v. goodwill, and

   vi. deferred income tax.

b. Tier 2 Capital includes:

   i. perpetual and cumulative preferred stock

   ii. limited life redeemable preferred stock with or without the replacement requirement upon subject to BSP conditions,

   iii. dividends distributable of a & b above;

   iv. appraisal increment reserve—bank premises, as authorized by the Monetary Board,

   v. net unrealized gains on underwritten listed equity securities purchased,

   vi general loan loss provision,

   vii. unsecured subordinated debt with a minimum original maturity of at least ten (10) years (with prior BSP approval),

   viii. unsecured subordinated debt with a minimum original maturity of at least five (5) years (with prior BSP approval)

   ix. deposit for stock subscription on:

      1) common stock

      2) perpetual and non-cumulative preferred stock

      3) perpetual and cumulative preferred stock subscription; and

      4) limited life redeemable preferred stock subscription with the replacement requirement upon redemption

   Subject to deductions for:

   a. Perpetual and cumulative preferred stock treasury shares;

   b. Limited life redeemable preferred stock treasury shares with the replacement requirement upon redemption; and

   c. Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption

   d. Limited life redeemable preferred stock treasury shares without the replacement requirement upon redemption;

   e. Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption.

The Group's regulatory capital position as of September 30, 2007 and 2006 is presented as follows:

	2007	2006
Tier 1 Capital	**₱ 24,981,117**	₱ 12,082,999
Tier 2 Capital	**6,587,114**	6,243,921
Total Regulatory Capital	**31,568,231**	18,326,920
Reciprocal investment in equity of other banks	**—**	(8,847)
Total Qualifying Capital, after deductions	**₱ 31,568,231**	₱ 18,318,073
Total Risk Weighted Assets	**₱ 167,989,449**	₱ 117,914,528
Capital ratios:		
Total regulatory capital expressed as percentage of total risk weighted assets	**18.79%**	15.54%
Total Tier 1 expressed as percentage of total risk weighted assets	**14.87%**	10.25%

The above capital ratios comply with the related BSP prescribed ratios.

33.2 Capital Allocation

The allocation of capital between specific operations and activities is, to a large extent driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with difference activities. In such cases the capital requirements may be flexed to reflect differing risk profiles subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocation capital to specific operations and activities is undertaken independently of those responsible of the operation by Group Risk and Group Credit, and is subject to review by the Group Credit Committee or ALCO as appropriate.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group’s longer term strategic objectives. The Group’s policies in respect of capital management and allocation are reviewed regularly by the BOD.

34. DIFFERENCES BETWEEN CERTAIN ACCOUNTING TREATMENT ALLOWED BY BSP AND PFRS

There were certain transactions that were not accounted for by the Group in accordance with PFRS although the accounting treatments applied by the Group for such transactions were allowed by BSP, except for the derecognition of certain credit card receivables sold in 2006 as discussed in Note 9. A summary of the effects of these transactions on the Group’s total resources, liabilities, capital funds and net income had PFRS been used, is presented below. Detailed discussions of these transactions are presented in Note 9.

	Increase (Decrease)			
	Total Resources	**Total Liabilities**	**Total Capital Funds**	**Net Income**
2007				
SPV transactions	₱(4,818,248)	₱ 23,988	₱(4,842,236)	₱ —
Staggered booking of required additional allowance for impairment on, and subsequent write-off of credit card receivables	(2,593,440)	—	(2,593,440)	—
	₱(7,411,688)	₱ 23,988	₱(7,435,676)	₱ —
2006				
SPV transactions	₱(3,492,755)	₱ 14,332	₱(3,507,087)	₱ —
Staggered booking of required additional allowance for impairment on credit card receivables	(2,755,530)	—	(2,755,530)	486,270
Derecognition of credit card receivables sold	1,444,774	1,444,774	—	—
	₱(4,803,511)	₱1,459,106	₱(6,262,617)	₱486,270

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