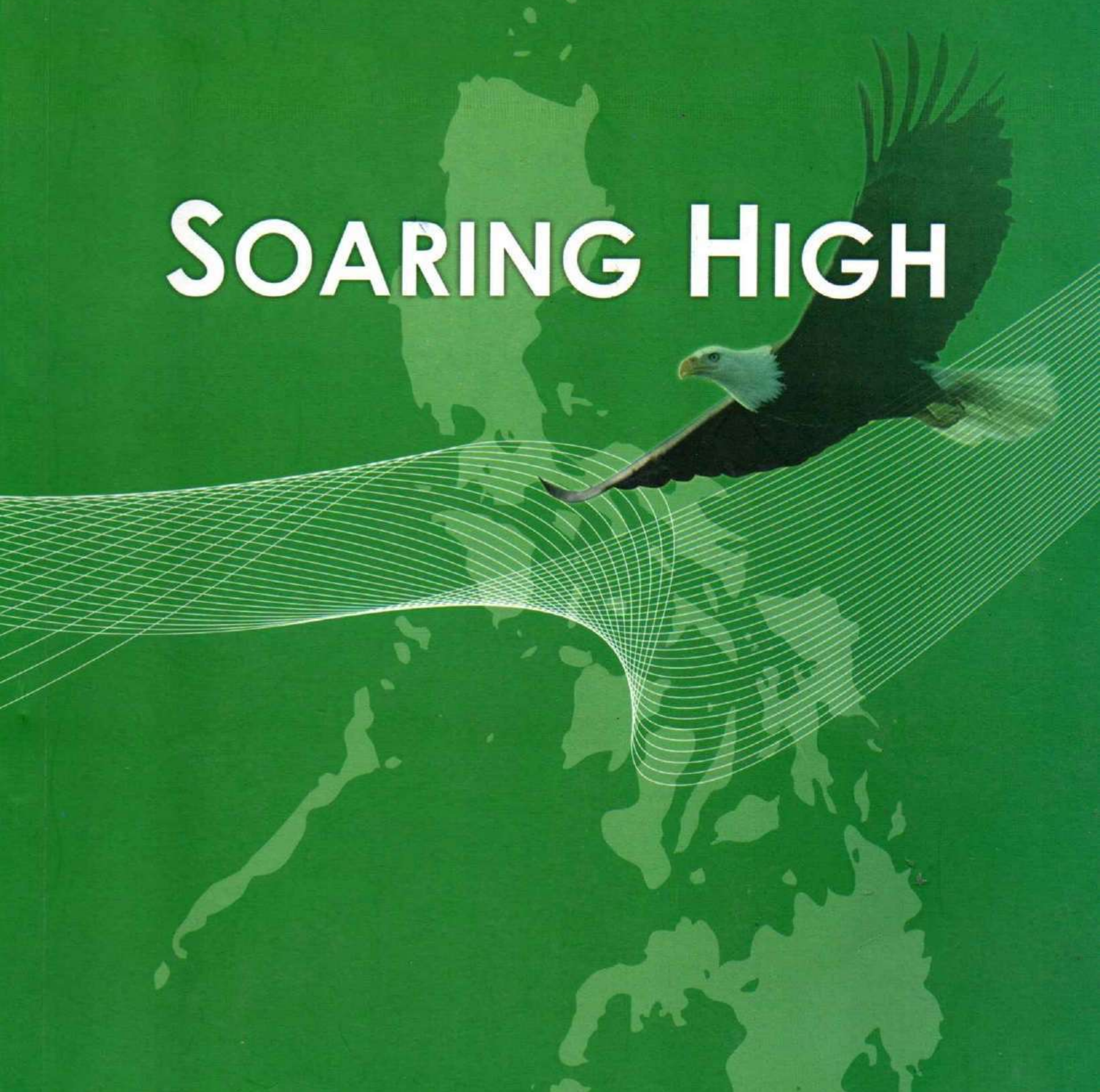
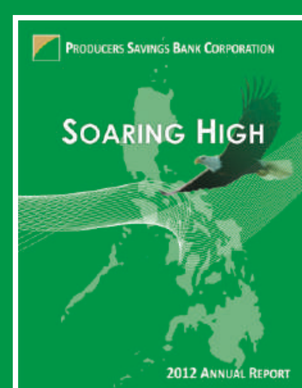
PRODUCERS SAVINGS BANK CORPORATION

SOARING HIGH



2012 ANNUAL REPORT

Table of Contents



Our cover shows how Producers Bank is soaring high in the countryside. With the merger and consolidation and all the other feats of the Bank for the year, Producers Bank indeed soared high in 2012.

Our Corporate Logo

The Producers Bank logo represents the aspiration of the Bank as expressed by the ideals of its four publics (customers, employees, creditors and shareholders). These four publics are the four sides of the logo. These interlocking publics, if put together, share a common spirit of sacrifice, honesty, and teamwork; thus, creating a solid and stable institution represented by the square of the logo. The Bank sees itself becoming the avenue — the yellow path — through which the countryside's green resources are transformed into new golden wealth. It aims to be the primary development financial institution — represented by the color yellow — in the Philippine countryside — represented by the color green. The Bank, therefore, is the yellow sun rising on the Philippine countryside bringing new hope to Filipinos who seek a better future. Producers Bank is the dawn rising, shedding light to families and towns and bringing hope by supporting the local economy to help people produce more wealth.

Vision

To be the most progressive, stable and strong private development financial institution in the Philippine countryside

Mission

- To make our depositors happy and delighted with the value and quality of services they get from Producers Bank
- To provide responsive and innovative credit and other services needed by farmers, small- and medium-sized enterprises
- To assure challenging and rewarding jobs and long-term employment for our employees
- To make our stakeholders very proud of our contributions to economic development in the Philippine countryside

Philosophy

The main purpose for our existence is to create long-term value to our shareholders by generating for them superior and sustainable returns. We will achieve this by:

- Providing our customers value-added products and better service delivery;
- Adhering to what our laws and regulations require;
- Promoting a corporate culture that subscribes to high moral and ethical standards underpinned by codes of corporate governance and best practices;
- Creating a working environment based on the values of equal opportunity and meritocracy; and
- Improving the quality of life of our employees and in the communities that we serve particularly in areas that are not served by the large financial institutions.

Corporate Profile

The 'new' Producers Savings Bank Corporation

The 'new' Producers Savings Bank Corporation, incorporated on October 1, 2012, is the resulting thrift bank entity that possessed all the rights, privileges, immunities, franchises, and absorbed all the properties and assets, as well as assumed all the liabilities and obligations of both the 'old' Producers Savings Bank Corporation and New Rural Bank of Victorias, Inc. in the same manner as if it had itself acquired all the rights, privileges and assets and incurred such liabilities or obligations.

Upon the incorporation of the 'new' Producers Savings Bank Corporation, the 'old' Producers Savings Bank Corporation and New Rural Bank of Victorias, Inc. ceased to exist as corporate entities.

The consolidation is in support of the policy of the Bangko Sentral ng Pilipinas (BSP) to promote mergers and consolidations among banks as a means to develop larger and stronger financial institutions.

On April 25, 2012, the Board of Directors of the Philippine Deposit Insurance Corporation (PDIC), per Resolution No. 2012-04-083, granted its consent to the proposed consolidation of Producers Savings Bank Corporation and New Rural Bank of Victorias, Inc. to be known as “Producers Savings Bank Corporation” pursuant to Section 21.c of the PDIC Charter.

Soon thereafter, the Monetary Board in its Resolution No. 963 dated June 15, 2012, approved the consolidation of Producers Savings Bank Corporation and New Rural Bank of Victorias, Inc. into a new consolidated thrift bank to be known as “Producers Savings Bank Corporation.”

With the endorsement of the BSP, the Securities and Exchange Commission (SEC) issued on October 1, 2012, the Certificate of Incorporation of Producers Savings Bank Corporation and the Certificate of Filing of the Articles and Plan of Consolidation by and between Producers Savings Bank Corporation and New Rural Bank of Victorias, Inc. to be known as “Producers Savings Bank Corporation.”

Pursuant to R. A. 7906 and to Monetary Board Resolution No. 963 dated June 15, 2012, the BSP granted Producers Savings Bank Corporation its Certificate of Authority to operate as a thrift bank on October 8, 2012.

The 'new' Producers Savings Bank Corporation commenced operations as a consolidated bank on October 12, 2012.

As of December 31, 2012, the 'new' Producers Savings Bank Corporation has a total of eighty one (81) branches operating in Regions I to VI.

The 'old' Producers Savings Bank Corporation

Prior to the consolidation, the 'old' Producers Savings Bank Corporation was formerly known as Producers Rural Bank of San Jose City (NE), Inc. and later as Producers Rural Banking Corporation.

The 'old' Producers Savings Bank Corporation was registered with the SEC on October 23, 1995 to operate as a rural banking corporation.

On August 2, 1995, the Monetary Board in its Resolution No. 856 approved the grant of an authority to Producers Bank to operate as a rural bank pursuant to Republic Act 7353.

On November 17, 1995, the BSP granted Producers Bank its Certificate of Authority to operate as a rural bank and it started its operations as such on November 27, 1995.

As a rural bank, Producers Bank preserved the distinction of having the largest branch network in Luzon and the second largest branch network nationwide among rural banks. Producers Bank ranked third (3rd) largest among rural banks in the Philippines in terms of total assets as of the end of 2009.

On August 13, 2009, the Monetary Board, in its Resolution No. 1158, approved the application of Producers Bank to convert/upgrade its Certificate of Authority from a rural bank into a thrift bank.

On September 27, 2010, Producers Savings Bank Corporation started its operations as a thrift bank and thus became the first rural bank with its head office located in Metro Manila to be upgraded to a thrift bank since the enactment of the General Banking Law of 2000.

Financial Highlights

	2012
FOR THE THREE MONTH PERIOD (in Million Pesos) *October to December 2012 for the 'new' Producers Savings Bank Corporation	
Net Interest Income	122.494
Other Income	38.584
Operating Expenses	125.904
Provision for Credit Losses	5.245
Net Income	32.373
AT YEAR-END (in Million Pesos)	
Total Assets	7,674.415
Loan Portfolio (net)	5,006.131
Total Deposits	3,195.461
Capital Funds	1,022.476
PER COMMON SHARE	
Earnings per Share	0.55
Number of Shares Outstanding	59,338,440
FINANCIAL RATIOS	
Return on Average Assets	1.19%
Return on Average Equity	8.92%
Net Interest Margin	7.37%
Non-Performing Loans Ratio	3.06%
Capital Adequacy Ratio	20.15%

Message from the Chairman

ANDRES M. CORNEJO
Chairman and Chief Executive Officer

Producers Bank
SOARING HIGH

With the approval of the Bangko Sentral ng Pilipinas (BSP) and the issuance of the Certificate of Incorporation of the Securities and Exchange Commission (SEC) of the consolidation of Producers Savings Bank Corporation (Producers Bank) and New Rural Bank of Victorias, Inc. (NRBVI), we will no longer talk about two separate banks. Rather, we will be talking about the **new** Producers Savings Bank Corporation which came into existence as a juridical entity last October 1, 2012.

I consider the aforesaid consolidation which brought about the creation of the **new** Producers Savings Bank Corporation as our major operational highlight for 2012 for a number of reasons.

First, the consolidation culminates all our efforts and hard work from the moment the old Producers Bank acquired one hundred percent (100%) of the issued and outstanding common shares of NRBVI way back in 2010.

Second, the consolidation makes the presence of the **new** Producers Bank more felt in areas where it operates not only in Luzon but in the Visayas as well.

Third, the consolidation makes the **new** Producers Bank the largest thrift bank among independent thrift banks (i.e., thrift banks that are not subsidiaries of universal banks) in terms of branch network with eighty one (81) branches as of December 31, 2012 plus the eleven (11) branches granted by BSP as an incentive to be opened in the Visayas within 2013.

Fourth, the consolidation results to greater efficiency, market reach, larger capital and a more formidable and competitive financial institution dedicated to service the financial requirements of the farmers and SMEs involved in the food production value chain.

Fifth, the consolidation proves once again what we can do as a Bank. The consolidation with NRBVI is not the first time that we ventured into this kind of endeavor. In 2003, Producers Bank merged with Rural Bank of Rosales, Inc. (ROSBANK) which paved the way to the opening of more branches as an incentive given by BSP because of the merger.

On the other hand, it can be noted that nothing much has changed in the new Producers Bank except for its legal status as a newly formed corporation which absorbed the assets and liabilities of the old Producers Bank and NRBVI. The same corporate name, Producers Savings Bank Corporation, will continue to be used. Its original vision and mission including the organization committed to see it through in the near future will remain the same.

Meanwhile, the Monetary Board (MB) and the BSP have adopted an expressed policy of promoting mergers and consolidations among banks as a means to develop larger and stronger financial institutions especially those whose main areas of operations are outside of Metro Manila. In line with this, we have also decided to enter into a merger with Iloilo City Development Bank (ICDBank) for the same purposes stated in the consolidation above. It is expected that BSP and also the Philippine Deposit Insurance Corporation will likewise approve our merger application by the third quarter of 2013.

With the aforesaid merger and consolidation and all the other feats of the Bank for 2012, I am proud to say that indeed Producers Bank soared high and is continuously doing so such that we can expect a lot more good things coming our way like the implementation of our plan to expand further our thrift banking business all over the countryside.

Yet, amidst the merger and consolidation, the change from old to new Producers Bank, the branch openings here and there, one thing remains constant, and that is our commitment as a development financial institution to support the local economy by helping people produce more wealth.

In closing, let me express my deepest gratitude to all the stakeholders of Producers Bank – the shareholders, the officers and staff, the creditors and the customers. Thank you for your continuous support and belief in Producers Bank, without all of you, Producers Bank will not be where it is right now.

Also, let me give glory to our Lord Jesus Christ for the outpouring blessings that He gives Producers Bank. Thank you, Lord Jesus and I know that without Your guidance we will not make it on our own!

ANDRES M. CORNEJO
Chairman and Chief Executive Officer

The President's Report

EDMUNDO C. MEDRANO
Vice Chairman, President
and Chief Operating Officer

Review of 2012 Operations

Producers Bank once again proved itself right in its optimistic anticipation for 2012 as the year ended with a bang.

In spite of uncertainties in the economic front at the start of 2012 --- in large part due to the continuing uncertainties in the Eurozone, the Middle East, North Africa and the United States, Producers Bank has done well amidst these uncertainties. Producers Bank positioned itself well and reaped the benefits presented by opportunities arising from sweeping changes in the regulatory environment.

Presented below are the major developments for Producers Bank in 2012.

Producers Bank Completes Consolidation with New Rural Bank of Victorias, Inc.

Producers Savings Bank Corporation completed its consolidation with the New Rural Bank of Victorias, Inc., the largest rural bank based in Negros Island, in October 2012 and in the process created the largest standalone thrift bank in the country in terms of branch network.

The consolidation also resulted in the increase in the rediscounting line of Producers Bank with the BSP to PhP1.391 Billion.

Commences Process of Merger with Iloilo City Development Bank

Producers Savings Bank Corporation has a thrift bank subsidiary, namely, Iloilo City Development Bank (ICDBank). The Monetary Board of the BSP, in its Resolution No. 373 dated March 6, 2009, approved the investment of Producers Bank in ICDBank up to 49% of the issued and outstanding common shares of the latter. ICDBank, a 50-year-old thrift bank based in Iloilo City, has 8 operating branches at the end of 2012. While Producers Bank owns no more than 49% of the outstanding shares of ICDBank, the latter is considered a subsidiary of Producers Bank as Producers Bank exercises control over ICDBank as defined under BSP Circular 749 and PAS 27 (Separate Financial Statements).

Producers Bank and ICDBank entered into a Plan of Merger on November 16, 2012 and entered into an Agreement and Articles of Merger on December 21, 2012, with Producers Bank as the surviving thrift banking entity, after having obtained the requisite board and stockholders' approvals.

Requests for approval and consent for the said merger were filed on January 8, 2013 with the BSP and the Philippine Deposit Insurance Corporation (PDIC), respectively.

Land Bank Approves New Php450.0 Million Unsecured Subordinated Debt Eligible as Lower Tier 2 Capital for Producers Bank

Land Bank of the Philippines (LANDBANK) approved a new 10-year subscription in Producers Bank's unsecured subordinated debt eligible as lower tier 2 capital in the amount of PhP450.0 Million. In February 2013, after obtaining prior Monetary Board approval, Producers Bank exercised its call option on its PhP120.0 Million unsecured subordinated debt which was issued in favor of LANDBANK in December 2007.

LANDBANK took cognizance of the fact that Producers Bank is currently the largest lender to the individual palay farmers and has also started to lend to sugar farmers. All this in spite of the lowering of tariffs for agricultural products under the AFTA-CEPT. It will be recalled that Producers Bank was the first thrift bank to obtain recognition from the BSP as an accredited rural financial institution in relation to the implementation of RA 10000 known as the Agri-Agra Credit Reform Act of 2009 and its implementing rules and regulations as contained in BSP Circular 736.

Producers Bank as an Accredited Rural Financial Institution

In BSP Circular Letter No. CL-2012-021 dated March 28, 2012 and in subsequent BSP Circular Letters on the same subject, Producers Bank was named as one of a handful of banks, and the first thrift bank, to have been recognized by the BSP as an Accredited Rural Financial Institution (ARFI) under the guidelines of RA 10000 and BSP Circular 736. As such, any bank lending to Producers Bank, or investing in Producers Bank, can claim such loan, investment or deposit as alternative agri-agra compliance.

In connection with being an ARFI, Producers Bank launched its Special Time Deposit Account for Banks (SDA for Banks) with the purpose to address the need of Banks to comply on an alternative basis with the requirements of RA 10000 and BSP Circular 736.

2012 Financial Performance of the Bank

Net Income after Tax

Audited Net Income After Tax ("NIAT") registered for the three (3) month period ended 31 December 2012 was PhP32.373 Million representing an 8.92% return on equity.

Total Resources

The Total Resources of Producers Bank at year-end reached PhP 7.674 Billion.

Producers Bank Continues to Expand its Branch Network

When the consolidation of the 'old' Producers Savings Bank Corporation and New Rural Bank of Victorias, Inc. into the 'new' Producers Savings Bank Corporation took place, the 'old' Producers Bank had 73 operating branches while New Rural Bank of Victorias, Inc. had 5 operating branches and 1 Other Banking Office ("OBO").

The 'new' Producers Savings Bank Corporation has 81 operating branches and 6 approved but unopened branches as of December 31, 2012.

It currently operates in 8 regions, namely, Cordillera Autonomous Region (CAR), Regions I to III, National Capital Region (NCR), Region IV-A (CALABARZON) and in Regions V and VI. The Bank has branches in 21 provinces namely, Pangasinan, La Union, Benguet, Nueva Vizcaya, Quirino, Isabela, Cagayan, Aurora, Nueva Ecija, Bataan, Bulacan, Pampanga, Zambales, Tarlac, Laguna, Quezon, Batangas, Camarines Sur, Albay, Sorsogon and Negros Occidental and in the cities of Baguio and Pasig.

With 81 operating branches, the 'new' Producers Savings Bank Corporation has the largest branch network among standalone thrift banks as of the end of 2012.

Moving Forward in 2013

Given the positive picture of the Philippine economy, the growth prospects for Producers Bank are definitely bright. An improving economy coupled with anticipated credit rating upgrade from international rating agencies, would drive demand for loans and other services provided by banks, in the process boosting their income.

Enterprises will be looking to expand and new businesses will arise. There will be numerous opportunities for the Bank to assist businesses by offering them access to readily available capital through the different loan products and services that we offer. The opportunities cut across all sectors of the economy.

Producers Bank is uniquely positioned to take advantage of opportunities for an expanding agricultural sector because of the reach of our branch network.

EDMUNDO C. MEDRANO
Vice Chairman, President & COO

Risk Management Systems and Policies

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to a variety of financial risks arising from its operating, investing and financing activities. The Board of Directors (BOD) has overall responsibility for the Bank's financial risk management, which includes establishment and approval of risk strategies, policies and limits. The BOD created the Audit, Corporate Governance and Risk Management Committees to closely monitor and evaluate the Bank's financial risk in line with the strategies, policies and limits set by the BOD. The main objective of the financial risk management is to minimize the adverse impact of financial risks on the Bank's financial performance and financial position due to the unpredictability of financial markets.

The Bank's financial instruments consist of due from BSP, due from other banks, AFS investments, loans and receivables, HTM investments, sinking fund, deposit liabilities, accrued interests, taxes and other payables, bills payable, redeemable preferred shares and unsecured subordinated debt. The main purpose of these financial instruments is to generate income and raise finances for the Bank's operations.

The main risks arising from the Bank's use of financial instruments are summarized as follows:

(a) Credit risk and concentration limit

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration limits for the Bank are set by types of borrowers and loan classifications. In setting the concentration limits, the Bank considers the BSP regulations.

To avoid significant concentration of credit risk on the Bank's loans and receivables, the Bank spreads out its risk by setting limits on loan amounts that are way, way below the Bank's allowable single borrower's limit and sets a limit on industry concentration. The Bank's system of credit approval is such that the higher the credit exposure, the more approving bodies are required to review and approve the credit proposal.

To mitigate credit risk, the Bank as a matter of policy has set a target of having at least 70% of total loan portfolio secured by tangible collateral, predominantly by way of registered mortgages on real properties. An independent unit in the Bank validates property appraisal, title verification, credit investigation and credit evaluation done by the loan originating branches. Insurance coverage and assignment of the insurance policies in favor of the Bank are required on these assets (e.g., improvements on real properties, motor vehicles, etc.). Further, the Bank requires that the borrowers themselves be insured (e.g., life insurance, mortgage redemption insurance, etc.) and the insurance policies assigned in favor of the Bank.

The Bank's maximum exposure to credit risk before collateral held or other credit enhancements at December 31, 2012 follows:

Due from BSP	P	144,058,438
Due from other banks		658,913,405
Loans and receivables, net		5,006,131,477
AFS investments		817,903,024
HTM Investments		20,000,000
Sinking fund		42,645,973
Other resources - security deposits		4,319,853
	P	**6,693,972,170**

In 2010, the BOD of Producers Bank approved the launching of a loan product to lend to small farmers who may have no access to formal credit institutions because the land they are tilling are small and are not covered by transfer certificate of title. The loan had been proposed to be covered by a guarantee or surety to be executed in favor of the Bank by the Agricultural Guarantee Fund Pool (AGFP).

AGFP was established by virtue of Administrative Order No. 225-A issued by former President Gloria Macapagal-Arroyo on May 26, 2008 to mitigate the risk involved in agricultural lending thereby facilitating the provision of credit in the agriculture sector. The AGFP shall encourage private financial institutions and other credit conduits to expand their outreach to new small farmer and fisherfolk ("SFF") borrowers; and/or expanded lending to existing SFF borrowers by providing guarantee coverage to unsecured loans extended by the private financial institutions and other credit conduits to SFF borrowers engaged in palay and/or food production projects/activities.

The BOD of Producers Bank also approved an ICRRS, which is a loan review and loan loss provisioning system that clearly sets forth the criteria for uniformly classifying loans. ICRRS has three (3) components, namely:

- the Borrower Risk Rating (BRR) which requires an assessment of the creditworthiness of the borrower, focusing on the outlook for loan repayment without considering the type or amount of the facility, or its security arrangements. The criteria to be assessed here are those which have a direct bearing on the borrower's long-term chances of survival and the factors related directly to these. Although the borrower's financial condition is evaluated on the basis of the past three years' historical financial statements, this is primarily to determine any trend in the entity's financial condition going forward, and how it will impact the borrower's future solvency, or debt-service capabilities. The BRR is determined by focusing on the borrower's credit quality based on factors such as the borrower's: (a) stability, (b) access to financial markets, (c) ability to service debt, (d) financial position strength, and (e) external rating by agencies, where applicable;

- the Facility Risk Factor (FRF) which is determined for each individual facility, taking into account the different security arrangements, or risk influencing factors, to allow a more precise depiction of risk. FRF is determined based on security arrangements supporting the facility. Since the FRF focuses on the quality and quantity of the collateral cover applicable to the underlying facility, independent of borrower quality, the FRF can upgrade the BRR on the basis of the facility's collateral position, or can downgrade it due to risk-enhancing features;

- the Adjusted Borrower Risk Rating (ABRR) which is the result of the combination of the BRR and FRF; and

- the Composite Risk Rating (CRR) which is the result of the weighted average ABRR to be used to determine the CRR of borrowers with multiple facilities.

Excessive risk concentration

Credit risk can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. The Bank analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables, and (2) financial investment securities. To mitigate risk concentration, the Bank constantly checks for breaches in regulatory and internal limits. The Bank manages credit risk through a continuing review of credit policies, system and procedures.

Concentration of risks of financial assets with credit risk exposure

An analysis of concentrations of credit risk by industry at the reporting date based on carrying amount (gross of allowance for probable losses) at December 31, 2012 is shown below:

Concentration by industry	Loans and receivables	Due from BSP and other banks	AFS investments	HTM investments	Sinking fund	Other resources – security deposits	Total
Financial intermediaries	P868,000,000	P802,971,843	P817,903,024	P20,000,000	P42,645,973	-	P2,551,520,840
Agriculture, hunting and forestry	1,393,625,615	-	-	-	-	-	1,393,625,615
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	697,944,271	-	-	-	-	-	697,944,271
Real estate, renting and business activities	431,633,655	-	-	-	-	4,319,853	435,953,508
Construction	266,502,200	-	-	-	-	-	266,502,200
Fishing	243,866,132	-	-	-	-	-	243,866,132
Manufacturing	226,777,068	-	-	-	-	-	226,777,068
Transportation, storage and communication	218,689,045	-	-	-	-	-	218,689,045
Hotels and restaurants	191,085,792	-	-	-	-	-	191,085,792
Education	72,368,951	-	-	-	-	-	72,368,951
Electricity, gas and water	20,679,318	-	-	-	-	-	20,679,318
Other community, social and personal service activities	280,957,177	-	-	-	-	-	280,957,177
	P4,912,129,224	P802,971,843	P817,903,024	P20,000,000	P42,645,973	P4,319,85	P6,599,969,917

The aging analyses of financial assets (gross of allowance for probable losses) at December 31, 2012 follow:

	Total	Neither Past Due nor Impaired	Past Due but not Impaired				Impaired
			30 days	31-90 days	91-180 days	>180 days	
Due from BSP	P144,058,438	P144,058,438	-	-	-	-	-
Due from other banks	658,913,405	658,913,405	-	-	-	-	-
Loans and receivables	5,073,935,163	4,831,021,695	47,223,946	45,347,072	51,425,874	82,058,433	16,858,143
AFS investments	817,903,024	817,903,024	-	-	-	-	-
HTM investments	20,000,000	20,000,000	-	-	-	-	-
Sinking fund	42,645,973	42,645,973	-	-	-	-	-
Other resources –			-	-	-	-	-
Security deposits	4,319,853	4,319,853	-	-	-	-	-
	P6,761,775,856	P6,518,862,388	P47,223,946	P45,347,072	P51,425,874	P82,058,433	P16,858,143

Credit quality per class of financial assets

The credit quality of the Bank's financial assets that are neither past due nor impaired is considered to be of good quality and expected to be collectible without incurring any credit losses.

Loans are secured either by real estate, chattel or other assets.

The Bank's bases in grading its financial assets are as follows:

High grade - These are receivables which have a high probability of collection (the counterparty has the apparent ability to satisfy its obligation and the security on the receivables is readily enforceable).

Standard grade - These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but have been outstanding for a certain period of time.

Substandard grade - These are receivables that can be collected provided the Bank makes persistent effort to collect them.

The table below shows the credit quality by class of financial assets of the Bank based on their historical experience with the corresponding parties.

	Neither Past due Nor Impaired			
	High grade	Standard grade	Substandard grade	Total
Due from BSP	P144,058,438	-	-	P144,058,438
Due from other banks	658,913,405	-	-	658,913,405
Loans and receivables	4,831,021,695	-	-	4,831,021,695
AFS investments	817,903,024	-	-	817,903,024
HTM investments	20,000,000	-	-	20,000,000
Sinking fund	42,645,973	-	-	42,645,973
Other resources –		-	-	
Security deposits	4,319,853	-	-	4,319,853
	P6,518,862,388	-	-	P6,518,862,388

(b) Market risk

Market risk is the risk of loss of future earnings or future cash flows arising from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, equity prices and other market changes. The Bank's market risk is manageable within conservative bounds. As of December 31, 2012, the Bank has not engaged in trading financial instruments.

However, in the event the Bank starts a securities portfolio, the Bank's Risk Management Manual has already defined limits for the following:

- Specific type and currency of security;
- Years to maturity; and
- Maximum portfolio amount per currency.

(c) Interest rate risk

Interest rate risk is the risk to earnings or capital resulting from adverse movements in the interest rates. The economic perspective of interest rate risk focuses on the value of a bank in the current interest rate environment and the sensitivity of that value to changes in interest rates.

The Bank mitigates interest rate risk (risk of loss or the risk of reduction in income due to changes in the interest rate environment) through the Asset and Liability Management Committee (ALCO). The Bank also monitors and measures the interest rate risk using an interest rate gap analysis. The gap analysis measures, for any given period, any mismatch between the amounts of interest-bearing assets and interest-bearing liabilities, which would mature or reprice during the period.

Interest rate risk is also addressed by the Bank by setting prudential limits on short-term loans vis-à-vis medium-term loans (maximum limit of 30% of total outstanding loans receivable). Short-term loans allow the Bank the flexibility to adjust loan pricing quickly should interest rates move up with respect to its sources of funds. Medium-term loans, on the other hand, are generally re-priced periodically. In cases of medium-term loans whose interest rates are fixed, the interest rate generally provides sufficient cushion in terms of spread over sourcing rates.

The Bank also maintains a very large portion of its deposit base in short-term deposits. No interest is paid on demand deposits, and the interest rates on savings and time deposits are set by reference to prevailing market rates being quoted by the commercial banks.

The Bank also makes an extensive use of rediscounting funds, the interest rates on which are generally fixed for the entire term, thus assuring that the interest spread of the Bank is maintained at all times.

The Bank closely monitors the movements of interest rates in the market and reviews its assets and liability structure to ensure that exposures to fluctuations in interest rates are kept within acceptable limits.

The following table demonstrates the sensitivity of income before income tax and equity for the three-month period ended December 31, 2012 to a reasonably possible change in interest rates, with all other variables held constant:

Increase/(decrease) in rate	1%	(1)%
Effect on income before income tax	P8,178,081	(P8,178,081)
Effect on equity	8,178,081	(8,178,081)

The interest rates for the interest-bearing financial instruments as of December 31, 2012 are as follows:

	Within 1 year	1-5 years	> 5 years
Due from BSP	3.5%	-	-
Due from other banks	0.25% to 2.635%	-	-
Loans and receivables	5.75% to 18%	12% to 18%	16% to 18%
AFS investments	5.615% to 5.725%	-	-
HTM investments			7.25% to 9%
Sinking fund	-	3.5% to 6%	-
Deposit liabilities	0% to 4.5%	5%	-
Bills payable	3.5% to 6.30%	-	-
Redeemable preferred shares	-	T-bill rate plus 2% to 3%	-
Unsecured subordinated debt	-	-	9.1192%

(d) Foreign exchange risk

The Bank manages its exposure to the effects of fluctuations in the foreign currency exchanges by complying with existing regulatory guidelines on the FCDU and by limiting such exposure within the limits that management believes to be relatively conservative for the size of the Bank.

Below are the details of the Bank's FCDU as at December 31, 2012:

	US Dollar	Peso
Financial Assets		
Due from other banks	587,941	24,134,992
	587,941	**24,134,992**
Financial Liabilities		
Deposit Liabilities	727,273	29,854,557
Other Liabilities	279	11,448
	727,552	**29,866,005**
Net currency risk exposure	**139,611**	**5,731,013**

The net currency risk is the difference between foreign currency assets and foreign currency liabilities.

Interest earned from FCDU amounted to P137,032 for the three-month period ended December 31, 2012.

(e) Liquidity Risk

Liquidity risk is the risk from inability to meet obligations when they become due because of inability to liquidate assets or obtain adequate funding. The Bank ensures that sufficient liquid assets are available to meet short-term funding and regulatory requirements. The Bank mitigates liquidity risk through the ALCO and Treasury Management Department, who ensure that sufficient liquid assets are available to meet short-term funding and regulatory requirements. The amount and the sources of funds (such as secondary liquidity reserves, unused credit lines and rediscounting lines) that are available to the Bank and the circumstances under which the Bank may use those funds are determined on a weekly basis. The Bank requires all branches to maintain liquid assets to total deposits/other liabilities ratio of at least 20% or 15% liquidity reserves, net of legal reserves.

The Bank's liquidity, cash and reserves positions are monitored on a daily basis. The Bank maintains sufficient liquidity reserves in the form of high-yielding placements with BSP, deposits with other banks and investments in government securities. The Bank has also obtained sufficient liquidity lines from other banks and non-banking lending institutions that can relieve financial pressures in the event of an extraordinary demand for liquidity. Further, the Bank actively rediscounts loans with the many entities that have given the Bank more than sufficient rediscounting lines.

The maturity grouping of financial instruments is based on the remaining period from the end of the reporting period to the contractual maturity date. For financial liabilities, when counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

The table below summarizes the maturity profile of financial instruments based on contractual undiscounted cash flow.

	December 31, 2012					
	Total	On demand	< 3 Months	3-12 Months	1-5 Years	
Financial assets						
Cash and other cash items	P 179,000,272	P 179,000,272	-	-	-	-
Due from BSP	144,058,438	144,058,438	-	-	-	-
Due from other banks	658,913,405	658,913,405	-	-	-	-
Loans and Receivables	5,073,935,163	1,272,719,407	1,308,549,226	1,521,703,613	776,699,660	194,263,257
AFS Investments	817,903,024	-	-	-	-	817,903,024
HTM Investments	20,000,000	-	-	-	-	20,000,000
Sinking Funds	42,645,973	42,645,973	-	-	-	-
Other resources - security deposits	4,319,853	4,319,853	-	-	-	-
	6,940,776,128	2,301,657,348	1,308,549,226	1,521,703,613	776,699,660	1,032,166,281
Financial Liabilities						
Deposit Liabilities	3,195,460,506	2,113,451,295	782,538,675	129,371,276	170,099,260	-
Accrued interest, taxes and other payables	42,168,642	-	42,168,642	-	-	-
Bills Payable	2,794,828,212	-	711,855,931	1,873,170,655	209,801,627	-
Redeemable preferred shares	40,000,000	40,000,000	-	-	-	-
Unsecured subordinated debt	120,000,000	-	-	-	120,000,000	-
Other Liabilities	445,059,535	445,059,535	-	-	-	-
	6,637,516,895	2,598,510,830	1,536,563,248	2,002,541,931	499,900,887	-
Net asset (liability)	**P 303,259,233**	**(P 296,853,483)**	**(P 228,014,022)**	**(P 480,838,318)**	**P 276,798,773**	**P 1,032,166,281**

Board Of Directors

ANDRES M. CORNEJO
Chairman
and Chief Executive Officer

EDMUNDO C. MEDRANO
Vice Chairman, President
and Chief Operating Officer

AMADOR N. LLONA
Director

SANDRA C. MENDOZA
Director

ELREY T. RAMOS
Independent Director

ATTY. FRANCISCO ED. LIM
Independent Director

MIGUEL A. MARTINEZ, JR.
Director

JULIO D. CLIMACO, JR.
Director
(Creditor Representative)

ALEJANDRINO J. FERRERIA, Ed.D.
Director

ATTY. ARSENIO A. ALFILER, JR.
Corporate Secretary

Board of Directors

ANDRES M. CORNEJO
Chairman and Chief Executive Officer

Mr. Cornejo is a highly successful, self-made businessman and entrepreneur from Nueva Ecija. Prior to becoming a full-time entrepreneur and banker, he worked for 16 years with the First Philippine Holdings Corporation (First Holdings) holding the positions of Comptroller, Treasurer and finally as Chief Financial Officer. Prior to joining First Holdings, he worked for 9 years with the local accounting firm, Carlos J. Valdez & Company CPAs. He is a graduate of the Philippine School of Business Administration with a Bachelor of Science degree in Accountancy and has a Masters in Entrepreneurship at the Asian Institute of Management. Mr. Cornejo is a Certified Public Accountant. Mr. Cornejo is at present the Vice Chairman of Iloilo City Development Bank; a Member of the Board of Trustees of Village Enterprise Development Foundation, Inc., a non-stock, non-profit microfinance institution; Chairman and President of Cabiao General Hospital, Inc.; Chairman of C & D Properties, Inc.; and General Manager of C & D Pawnshop. He was formerly the Chairman of New Rural Bank of Victorias, Inc.

EDMUNDO C. MEDRANO
Vice Chairman, President and Chief Operating Officer

Mr. Medrano has extensive experience in banking. Prior to joining Producers Bank in September 2005, he was Senior Vice President and Sector Head of the Account Management Sector at Asiatrust Development Bank Inc. He spent 16 years with the AsianBank/AB Capital Group and held the positions of General Manager of AB Leasing and Finance Corporation, Senior Vice President for Investment Banking at AB Capital and Investment Corporation and First Vice President and Deputy Head of Account Management Division and concurrently Corporate Banking Group Head and Financial Institutions Group Head at AsianBank Corporation. He earned his degree in Bachelor of Arts major in Economics (Cum Laude) and his degree in Bachelor of Science in Commerce major in Accounting (Cum Laude) from the De La Salle College (now De La Salle University). Mr. Medrano is a candidate for a Masters in Business Management degree at the Asian Institute of Management. Mr. Medrano was a recipient of the Top 100 Lasallians in Banking and Finance Award. Mr. Medrano is at present a Director in Iloilo City Development Bank; and a Member of the Board of Trustees of Village Enterprise Development Foundation, Inc. Mr. Medrano is the official representative of the Bank in the Chamber of Thrift Banks (CTB), Money Market Association of the Philippines (MART) and in the Bankers Institute of the Philippines Inc. (BAIPHIL). He was formerly the President and Director of the New Rural Bank of Victorias, Inc.

ELREY T. RAMOS
Independent Director

Mr. Ramos was formerly the President and Chief Executive Officer of East West Banking Corporation, a mid-sized commercial bank. He was formerly an Independent Director of the New Rural Bank of Victorias, Inc. He earned his degree of Bachelor of Business Administration (Magna Cum Laude) from the University of the East. Mr. Ramos is a Certified Public Accountant. He was the Topnotcher in the 1971 CPA examinations with an average grade of 89.7% and Mr. Ramos was Second Placer in the 1986 Uniform United States CPA examination with an average grade of 94.5%. Currently, Mr. Ramos is a Partner in Mateo Ramos Celestino Llona and Co., CPAs.

ATTY. FRANCISCO ED. LIM
Independent Director (since 26 January 2011)

Atty. Lim was formerly the President and Chief Executive Officer of the Philippine Stock Exchange (PSE), the longest serving President of the exchange. He was also formerly President and Chief Executive Officer, Securities Clearing Corporation of the Philippines; former Chairman, Philippine Stock Exchange Foundation, Inc.; and former Chairman, Capital Market Development Center, Inc. He finished his Bachelor of Philosophy (Magna Cum Laude) at the University of Sto. Tomas (UST); his Bachelor of Arts (Cum Laude) also at the UST; his Bachelor of Laws (Second Honors) at the Ateneo de Manila University; and his Master of Laws at the University of Pennsylvania, USA. Atty. Lim is a member of the Philippine Bar and New York State Bar. Currently, he is a co-managing partner at ACCRALAW.

ALEJANDRINO J. FERRERIA, Ed.D.
Director

Dr. Ferreria was the Bank of America Foundation Professor of Business Management at the Asian Institute of Management. From 2002 to 2004, he was the Dean of the Asian Center for Entrepreneurship (ACE) at the Asian Institute of Management where he was a Guru. He earned his degree in Bachelor of Science in Management from the Ateneo de Manila University, his Masters in Business Administration from the University of the Philippines and his Doctorate in Education Management (Ed.D) from the National University. He was formerly a Director of the New Rural Bank of Victorias, Inc. Dr. Ferreria currently sits on several boards: Goodyear Philippines, Pascual Laboratories, Construction Management and Development Foundation, Filipino Car Foundation and Channel Technologies. Currently, he is the Chairman of Iloilo City Development Bank; Partner/Director at ACE Management Education, Inc.; and Chief Executive Officer, Lakpue Drug, Inc.

JULIO D. CLIMACO, JR.
Director (Creditor Representative)

Mr. Climaco currently holds the position of Senior Vice President, Strategic Planning Group at the Land Bank of the Philippines (LBP) and he has been connected with LBP since 1993. He spent close to 4 years at Hongkong Bank and reached the position of Staff Officer and later worked for nearly 4 years at Joaquin Cunanan & Co. / Price Waterhouse and attained the position of Managing Consultant. Mr. Climaco completed his BSC Management of Financial Institutions degree from De La Salle University in 1985 and has earned MA units in Applied Business Economics at the University of Asia and the Pacific.

AMADOR N. LLONA
Director

Mr. Llona is currently a partner in Mateo Ramos Celestino Llona and Company, CPAs. He held various medium to high level positions in different types of businesses - from investments and financial consulting to academic institutions. He was formerly a Director of the New Rural Bank of Victorias, Inc. He obtained his Bachelor of Science degree in Accountancy (Cum Laude) at the University of the East and his Masters in Business Administration at the Ateneo de Manila University. He is a Certified Public Accountant. Mr. Llona is at present also a Director in Iloilo City Development Bank; and a Member of the Board of Trustees of Village Enterprise Development Foundation, Inc.

MIGUEL A. MARTINEZ, JR.
Director

Mr. Martinez is a highly successful entrepreneur based in Talavera, Nueva Ecija.

SANDRA C. MENDOZA
Director

Ms. Mendoza is a graduate of the University of Asia and the Pacific where she earned her degree in Bachelor of Science in Information Technology. She currently holds the position of Vice President and Special Assistant to the Chairman and CEO at Producers Bank. Prior to her current position, she was the the Head of Information Technology of Producers Bank. Ms. Mendoza was formerly a Director of the New Rural Bank of Victorias, Inc. She and her husband are also entrepreneur-restaurateurs operating several very successful restaurants and a wellness center.

ATTY. ARSENIO A. ALFILER, JR.
Corporate Secretary

Atty. Alfiler is presently a partner at Corporate Counsels, Philippines. His previous work experience include being a director of Asiatrust Bank, First Vice President of AB Capital and Investment Corporation, First Vice President of AsianBank Corporation and stints with Union Bank of the Philippines and Bancom Development Corporation. Atty. Alfiler obtained his Bachelor of Arts in Public Administration and his Bachelor of Laws from the University of the Philippines. Atty. Alfiler is at present Corporate Secretary of Village Enterprise Development Foundation, Inc., Sun Savings Bank and Iloilo City Development Bank.

Corporate Governance

The Board of Directors ensures that the necessary corporate policies and organizational structures are put in place to foster the long-term success of the Bank and secure its sustained competitiveness. It regularly reviews existing policies and structures to ensure compliance with pertinent laws and regulations, and that they are aligned with best practices and good governance principles.

The Board accomplishes its mandate through the different committees that address specific areas of focus.

• Risk Management Committee

ELREY T. RAMOS	*Chairman*
FRANCISCO ED. LIM	*Member*
EDMUNDO C. MEDRANO	*Member*
AMADOR N. LLONA	*Member*
ALEJANDRINO J. FERRERIA	*Member*

• Corporate Governance Committee

FRANCISCO ED. LIM	*Chairman*
ELREY T. RAMOS	*Member*
EDMUNDO C. MEDRANO	*Member*
AMADOR N. LLONA	*Member*
ALEJANDRINO J. FERRERIA	*Member*

• Audit Committee

ELREY T. RAMOS	*Chairman*
FRANCISCO ED. LIM	*Member*
ALEJANDRINO J. FERRERIA	*Member*

• Nomination and Compensation Committee

FRANCISCO ED. LIM	*Chairman*
ELREY T. RAMOS	*Member*
EDMUNDO C. MEDRANO	*Member*
AMADOR N. LLONA	*Member*
ALEJANDRINO J. FERRERIA	*Member*

• Executive Committee

ANDRES M. CORNEJO	*Chairman*
EDMUNDO C. MEDRANO	*Member*
SANDRA C. MENDOZA	*Member*

• Credit Committee

ANDRES M. CORNEJO	*Chairman*
EDMUNDO C. MEDRANO	*Member*
FILIPINAS M. FERNANDEZ	*Member*
CENON M. LADRINGAN	*Member*

Audit Committee. The Audit Committee is composed of at least three (3) members of the Board of Directors, two (2) of whom are Independent Directors, including the Chairperson, with accounting, auditing, or related financial management expertise or experience.

Further, the Chief Executive Officer, Chief Financial Officer and/or Treasurer, or officers holding equivalent positions, are not to be appointed as members of the Audit Committee.

The Audit Committee provides oversight over the Bank's financial reporting policies, practices and control and internal and external audit functions. It shall be responsible for the setting up of the Internal Audit Department and for the appointment of the Internal Auditor as well as the independent External Auditor who shall both report directly to the Audit Committee. In cases of appointment or dismissal of external auditors, it is encouraged that the decision be made only by independent and non-executive Audit Committee members. The Audit Committee shall monitor and evaluate the adequacy and effectiveness of the internal control system.

The Audit Committee reviews and approves the audit scope and frequency. It receives key audit reports, and ensures that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by Auditors.

The Audit Committee has explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions. The Audit Committee ensures 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.

The Audit Committee establishes and maintains mechanisms by which officers and staff may, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It ensures that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

Risk Management Committee (or Risk Oversight Committee). The Risk Oversight Committee is responsible for the development and oversight of the risk management program for the Bank. The committee is composed of five (5) members of the Board of Directors including two (2) Independent Directors, and a Chairperson who is a non-executive member of the Board. The members of the Risk Oversight Committee possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It oversees the system of limits to discretionary authority that the Board delegates to management, ensures that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached. The Bank's Chief Compliance Officer communicates formally and informally to the Risk Oversight Committee any material information relative to the discharge of its function. The Risk Oversight Committee has access to external expert advice, particularly in relation to proposed strategic transactions, such as mergers and acquisitions.

Corporate Governance Committee. The Corporate Governance Committee assists the Board of Directors in fulfilling its corporate governance responsibilities. It 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 of Directors. The committee is composed of five (5) members of the Board of Directors, two (2) of whom are Independent Directors, including the Chairperson.

The committee is responsible for ensuring the Board's effectiveness and due observance of corporate governance principles and guidelines. It oversees the periodic performance evaluation of the Board and its committees and executive management; and also conducts an annual self-evaluation of its performance. The Corporate Governance Committee may coordinate with external facilitators in carrying out Board assessment within the frequency approved by the entire Board. The Corporate Governance Committee also decides whether or not a Director is able to and has been adequately carrying out his/her duties as Director based on its own assessment or the assessment of external facilitators, bearing in mind the Director's contribution and performance (e.g., competence, candor, attendance, preparedness and participation). The committee is tasked with developing Internal guidelines to be adopted that address the competing time commitments that are faced when Directors serve on multiple boards.

The committee makes recommendations to the Board regarding the continuing education of Directors, assignment to Board committees, succession plan for the Board members and senior officers, and their remuneration commensurate with corporate and individual performance.

The Corporate Governance Committee decides the manner by which the Board's performance shall be evaluated and may propose an objective performance criteria approved by the Board. Such performance indicators shall address how the Board has enhanced long term shareholders' value.

Operating Management

The Board of Directors delegates to the President and Chief Operating Officer (COO) the responsibility of managing the Bank's business operations. Closely supporting and working with the President and COO at the higher level is the Chairman and Chief Executive Officer (CEO) who directs the overall execution of the strategic plans and policies as established by the Board of Directors. Reporting directly to the President and COO is the Bank Security Officer and the Corporate Planning Department. At the lower level, the President and COO is supported in his day to day management by the heads of the following sectors or groups.

- Branch Management Sector (BMS)
- Treasury Management Sector (TMS)
- Credit Management Sector (CMS)
- Internal Audit and Compliance Group (IACG)
- Information and Communications Technology Group (ICTG)
- Human Resource Management Department (HRMD)
- Controllership Group (CG)

PRODUCERS BANK
assures
CHALLENGING
and
REWARDING JOBS
and
LONG-TERM
EMPLOYMENT
for its employees.


TELLER


PRODUCERS


NOW AVAILABLE HERE!
SALARY LOAN
TO DepED TEACHERS

Banking Subsidiary

ILOILO CITY DEVELOPMENT BANK

In December 2008, Producers Bank acquired less than 49% of Iloilo City Development Bank (ICDBank), then a 46-year-old thrift bank based in Iloilo City, with three (3) operating branches. The Monetary Board, in its Resolution No. 373 dated March 6, 2009, approved the investment of the Bank in ICDBank up to 49% of the issued and outstanding common shares of the latter. ICDBank has eight (8) operating branches at the end of 2012.

In 2011, management determined the existence of the Bank's significant control over the investee's or ICDBank's operations when the BSP approved on May 30, 2011 the interlocking directorships/officerships of five (5) directors/officers of the Bank and ICDBank, namely: Mr. Andres M. Cornejo, Mr. Edmundo C. Medrano, Dr. Alejandrino J. Ferreria, Mr. Amador N. Llona and Atty. Arthur R. Ponsaran, who together with Mr. Andrei D. Cornejo, ICDBank President (all nominees of the Bank) constituted a majority in the ICDBank Board of Directors. Thus, the investment of the Bank in ICDBank was classified as Investment in Subsidiary.

On July 31, 2012, the Bank's Board of Directors (BOD) approved an unsecured line of credit for ICDBank to expire on October 31, 2014, equivalent to 5% of the net worth of the Bank at that time. The approval of the above line of credit was reported to the BSP in accordance with the rules on grant of loans/credit accommodations by banks to their subsidiaries and affiliates.

Name of related party	Related party relationship	Nature of transaction	Amount
ICDBank	Subsidiary	Outstanding loans/credit accommodations	P33,000,000
		Accrued interest receivable	22,528
		Interest income	183,167

Related Party Transactions

In the ordinary course of business, the Bank grants loans and has other transactions with certain directors, officers, shareholders and related interests ("DOSRI").

Significant related party transactions are summarized below:

(a) DOSRI LOANS

Under the Bank's Policies and Procedures Manual, the transactions of the Bank with its DOSRI, which are comprised of loans and other transactions, are made substantially on the same terms as with other individuals and businesses of comparable risks. Under the Bank's DOSRI policy manual and current BSP regulations, the amount of individual accommodations to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book values of their respective investment in the Bank. Such limit does not apply to loans secured by assets considered as non-risk as defined in the regulations and loans granted to officers under the Bank's Employee Fringe Benefit Programs approved by the BSP. In the aggregate, loans to DOSRI should not exceed the Bank's total regulatory capital or 15% of its total loan portfolio, whichever is lower.

Information on loans to DOSRI at December 31, 2012 is as follows:

Total outstanding DOSRI loans	**P187,516,788**
Percent of DOSRI loans to total loans	**4%**
Percent of unsecured DOSRI loans to total DOSRI loans	**9%**
Percent of past due DOSRI loans to total DOSRI loans	**-**
Percent of non-performing DOSRI loans to total DOSRI loans	**-**

As of December 31, 2012, the Bank is in compliance with the BSP regulations on DOSRI.

(b) KEY MANAGEMENT COMPENSATION AND DIRECTORS' REMUNERATION

Key management personnel are the persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any of its directors.

Short-term employee benefits pertain to the compensation received by key management personnel. Compensation includes all benefits constituting all forms of consideration paid, payable or provided by the Bank, or on its behalf, in exchange for services rendered to the Bank.

Key management compensation	**P9,964,682**
Directors' remuneration	**494,730**

Corporate Social Responsibility

Producers Bank's CSR Program: More than Just Profits

The Bank's implementation of its Corporate Social Responsibility (CSR) program goes beyond compliance and engages in activities that further some social good --- beyond the interests of the Bank and that which is required by law.

More than just the profits or increasing the Bank's bottom line, Producers Bank takes time and effort to create and develop a positive impact through its activities for the environment, its consumers, its employees and the communities where it operates.

Listed below are the Bank's Corporate Social Responsibility Programs:

Take Care of Your Heart Program

an annual free blood pressure check up for employees and customers of the Bank.

Caring for the Aged and the Sick Program

a gift giving activity for sick children and the elderly members of the community.






Tree Planting Activity

the Bank makes sure that it does its share in helping take care of Mother Nature.

Help Build the Church Program

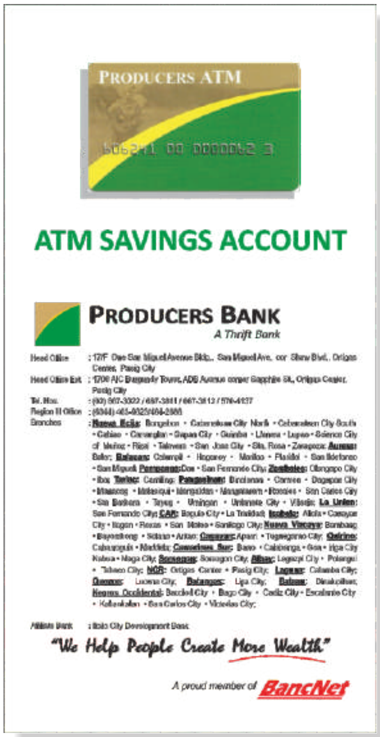
the Bank donates cash to help build the St. Nicolas de Tolentine Basilica Crypt.

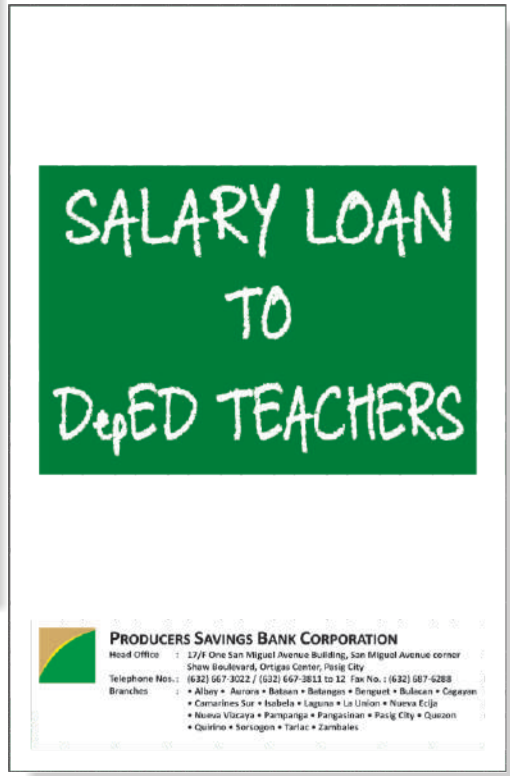
Save a Life Campaign

an annual bloodletting activity in partnership with the Red Cross of the Philippines – Nueva Ecija Chapter.

Producers Bank commits to improve the quality of life of our employees, and in the communities that we serve particularly in areas that are not served by the large financial institutions.

Products and Services





Deposit Services

Savings Accounts

- Regular Savings with Passbook
- Regular Savings with ATM Card
- I'm A Hero Savings
- Better Than Alkansya (BTA) Savings

Time Deposits

- Premium Savings
- Short Term Time Deposit
- Special Deposit Account (SDA)
- 5-Year Fixed Income Plan
- 5-Year TD Tied to I'm a Hero Savings
- 5-Year TD Tied to BTA Savings

Checking Account

US Dollar Savings & Time Deposits

Loan Services

- Crop Loan
- Livestock Loan
- Go Negosyo Loan
- Car Loan
- Housing Loan
- Large Enterprise Loan
- Salary Loan to DepED Teachers under the APDS
- Financial Inclusion Loan

Other Services

- Philhealth Accredited
- Remittance Services
  > Western Union
  > UniTeller
  > BDO

Awards and Recognitions

Award from Small Business Corporation

Year	Award
2012	Distinguished Partner Award in SME Wholesale Lending

Awards from the Bangko Sentral ng Pilipinas

Year	Award
2011	Finalist, Outstanding Respondent Award for Large and Medium Firms in Region III
2012	Outstanding Respondent Award among Large and Medium Firms in Region III

Award from the Social Security System

Year	Award
2008	The Best Employer-Large Scale Category in the Province of Nueva Ecija

Awards from Western Union

Year	Award
2001	Best Sub-Agent of the Year
2002	Best Sub-Agent of the Year

Awards from the Bureau of Internal Revenue

Year	Award
2008	One of the Top Taxpayers in Revenue Region No. 4 for Taxable Year 2008 The Top Taxpayer of BIR Revenue District 23B of Revenue Region No. 4 for Taxable Year 2008
2009	One of the Top Taxpayers of BIR Revenue District 23B of Revenue Region No. 4 for Taxable Year 2009

Awards from the Peoples Credit and Finance Corporation

Year	Award
2003	Pioneering Banking Sector Partner in Mainstreaming Microfinance Flagship Conduit in Central Luzon
2004	Most Progressive Program Partner
2008	**Golden Award**

Awards from the Land Bank of the Philippines

Year	Award
2001	1st Place – Most Outstanding CFI (Regional Level) 3rd Place – Most Outstanding CFI (National Level) Best in Reciprocal Business
2002	1st Place – Most Outstanding CFI (Regional Level) 3rd Place – Most Outstanding CFI (National Level) Best in Profitability Award
2003	1st Place – Most Outstanding CFI (Regional Level) 1st Place – Most Outstanding CFI (National Level)
2004	Best in Profitability Award Best in Reciprocal Business
2005	**Hall of Fame Award**
2008	**Golden Award**

Head Office Directory

Andres M. Cornejo
Chairman and Chief Executive Officer

Edmundo C. Medrano
Vice-Chairman, President
and Chief Operating Officer

Filipinas M. Fernandez
Executive Vice President

Josefina S. Monegas
Senior Vice President

Rizalino D. Basubas
First Vice President

Sandra C. Mendoza
Vice-President

Cenon M. Ladringan
Vice-President

Atty. Mary Elizabeth H. Bayhon
Vice-President,
Chief Compliance Officer

Jose Michael A. Camello
Assistant Vice President

Elmer G. Cayog
Senior Assistant Vice President

Amy A. Fernandez
Senior Assistant Vice President

Fidel M. Reyes
Assistant Vice President

Manuel A. Pastor
Assistant Vice President

Jacqueline R. Villaroman
Assistant Vice President

Arlyn D. Labasan
Assistant Vice President

Maricel C. Ladignon
Assistant Vice President

Loureanne A. Bautista
Assistant Vice President

Alfredo G. Cristobal, Jr.
Assistant Vice President,
Chief Information & Communications
Technology Officer

Peter Joel S. Cornejo
Assistant Vice President

Ernani T. Tadili
Assistant Vice President,
Controller and Information Security Officer

Clarlita E. Agustin
Assistant Vice President

Ronilo Antonio S. Quijano
Assistant Vice President

Marigold C. Rivera
Corporate Communications Officer

Rodolfo E. Estioko
Corporate Planning Officer

Branch Directory

Head Office
17th Floor, One San Miguel Avenue,
San Miguel Ave. corner Shaw Blvd.,
Ortigas Center, Pasig City
(632) 667-3022
(632) 687-6287

Head Office Extension
1706 AIC Burgundy Tower,
ADB Avenue corner Sapphire St.,
Ortigas Center, Pasig City
(632) 667-3811
(632) 667-3812
(632) 570-4137

Data Center
Unit 205 Pacific Place Condominium
Pearl Drive corner Amethyst St., Ortigas
Center, Pasig City
(632)638-0599
(632) 637-6495

Branches

Alicia
G/F Danison Commercial Building,
Magsaysay St., Alicia Public Market,
Alicia, Isabela
(078) 662-8062
alicia@producersbank.com.ph

Aparri
G/F 5-Storey Commercial Building,
J.P. Rizal corner Alvarado Sts.,
Barangay Maura, Aparri, Cagayan
(078) 822-8919
(078) 888-0313
aparri@producersbank.com.ph

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bambang@producersbank.com.ph

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Barangay Don Mariano Perez,
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Bongabon, Nueva Ecija
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bongabon@producersbank.com.ph

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Producers Bank Center I, Maharlika
Highway, Sangitan East corner
Gen. Tinio, Cabanatuan City, Nueva Ecija
(044) 464-1768
(044) 600-0359
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Calumpit, Bulacan
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Rosales, Pangasinan
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Pangasinan
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Mabalacat, Pampanga
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(045) 808-0020
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Guimba, Nueva Ecija
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San Roque, Iriga City
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Alba Romeo & Co.
Philippine Member Firm of BDO International Ltd.

PRODUCERS SAVINGS BANK CORPORATION

FINANCIAL STATEMENTS
December 31, 2012

BDO

PRODUCERS SAVINGS BANK CORPORATION

FINANCIAL STATEMENTS
December 31, 2012

B D O Alba Romeo & Co
Certified Public Accountants

BDO

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INDEPENDENT AUDITORS' REPORT

The Shareholders and the Board of Directors
Producers Savings Bank Corporation
17th Floor, One San Miguel Avenue, Shaw Boulevard
corner San Miguel Avenue, Ortigas Center, Pasig City

Report on the Financial Statements

We have audited the accompanying financial statements of Producers Savings Bank Corporation, which comprise the statement of condition as at December 31, 2012, and the statement of comprehensive income, statement of changes in capital funds and statement of cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Producers Savings Bank Corporation as at December 31, 2012, and its financial performance and its cash flows for the three-month period then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required by the Bureau of Internal Revenue

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information as disclosed in Note 36 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Alba Romeo & Co.

March 26, 2013
Makati City

PRODUCERS SAVINGS BANK CORPORATION

STATEMENT OF CONDITION
DECEMBER 31, 2012

	Note	
RESOURCES		
Cash and Other Cash Items	7	P179,000,272
Due from Bangko Sentral ng Pilipinas	8	144,058,438
Due from Other Banks	9	658,913,405
Loans and Receivables, net	10,11	5,006,131,477
Available-for-Sale Investments	12	817,903,024
Held-to-Maturity Investments	13	20,000,000
Investment in a Subsidiary	14	38,049,190
Bank Premises, Furniture, Fixtures and Equipment, net	15	228,264,690
Investment Properties, net	16	322,143,305
Assets Held for Sale	17	83,230,633
Sinking Fund	18	42,645,973
Intangible Assets	19	94,898,191
Deferred Tax Assets, net	30	17,363,711
Other Resources	20	21,812,720
Total Resources		P7,674,415,029
LIABILITIES AND CAPITAL FUNDS		
LIABILITIES		
Deposit Liabilities	21	
Demand		P325,640,424
Savings		1,797,301,395
Time		1,072,518,687
		3,195,460,506
Accrued Interest, Taxes and Other Payables	22	49,857,832
Bills Payable	24	2,794,828,212
Redeemable Preferred Shares	25	40,000,000
Unsecured Subordinated Debt	26	120,000,000
Other Liabilities	23	451,792,606
Total Liabilities		6,651,939,156
CAPITAL FUNDS		
Common Shares	27	593,384,400
Additional Paid-in Capital	15,16,19	396,718,182
Net Unrealized Gain on Available-For-Sale Investments	12	9,582,269
Surplus		22,791,022
Total Capital Funds		1,022,475,873
Total Liabilities and Capital Funds		P7,674,415,029

(The notes on pages 5 to 64 are an integral part of these financial statements.)

PRODUCERS SAVINGS BANK CORPORATION

STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2012

	Note	
Interest Income		
On loans and receivables	10	P154,114,536
On deposit with banks	8,9,18	1,050,541
On investments	12,13	3,173,776
		158,338,853
Interest Expense		
On deposits	21	12,292,957
On bills payable and other borrowings	24,26	23,551,890
		35,844,847
Net Interest Income		122,494,006
Provision for Probable Losses	11	(5,244,510)
Net Interest Income after Provision for Probable Losses		117,249,496
Other Operating Income	28	38,583,728
Other Operating Expenses	29	(125,903,597)
Income Before Income Tax		29,929,627
Provision for Income Tax	30	
Current		-
Deferred		7,138,605
		7,138,605
Net Income for the Period		22,791,022
Other Comprehensive Income		
Change in net unrealized gain on available-for-sale investments	12	9,582,269
Total Comprehensive Income for the Period		P32,373,291

(The notes on pages 5 to 64 are an integral part of these financial statements.)

PRODUCERS SAVINGS BANK CORPORATION

STATEMENT OF CHANGES IN CAPITAL FUNDS
FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2012

	Common Shares (Note 27)	Additional Paid-in Capital (Notes 15,16,19)	Net Unrealized Gain on Available-for-Sale Investments (Note 12)	Surplus Free	Total
Balance at October 1, 2012	P-	P-	P-	P-	P-
Issuance of shares	593,384,400	396,718,182	-	-	990,102,582
Total comprehensive income for the period	-	-	9,582,269	22,791,022	32,373,291
Balance at December 31, 2012	**P593,384,400**	**P396,718,182**	**P9,582,269**	**P22,791,022**	**P1,022,475,873**

(The notes on pages 5 to 64 are an integral part of these financial statements.)

PRODUCERS SAVINGS BANK CORPORATION

STATEMENT OF CASH FLOWS

FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2012

	Note	
Cash Flows From Operating Activities		
Income before income tax		P29,929,627
Adjustments for:		
Depreciation and amortization	15,16,29	10,827,809
Provision for probable losses	11	5,244,510
Provision for retirement benefits	29,31	5,192,262
Dividend income	28	(1,999,950)
Realized gain on sale of investment properties	28	(304,569)
Operating cash flows before working capital changes		48,889,689
Decrease (Increase) in:		
Loans and receivables		(1,415,697,486)
Sinking fund		(787,637)
Other resources		9,569,503
Increase (Decrease) in:		
Deposit liabilities		666,777,885
Accrued interest, taxes and other payables		(20,155,018)
Bills payable		1,459,645,020
Other liabilities		5,836,189
Cash generated from operations		754,078,145
Income taxes paid	30	-
Net cash provided by operating activities		754,078,145
Cash Flows From Investing Activities		
Additions to available-for-sale investments	12	(204,599,923)
Proceeds from sale of investment properties	16	4,315,689
Dividend received	28	1,999,950
Acquisition of bank premises, furniture, fixtures and equipment	15	(19,693,188)
Net cash used in investing activities		(217,977,472)
Cash Flows From Financing Activities		
Issuance of common shares	27	20,000,000
Cash and cash equivalents acquired from consolidation	1	425,871,442
Net Increase in Cash and Cash Equivalents		981,972,115
Beginning		-
Ending		P981,972,115
Cash and Cash Equivalents consists of:		
Cash and other cash items	7	P179,000,272
Due from Bangko Sentral ng Pilipinas	8	144,058,438
Due from other banks	9	658,913,405
		P981,972,115
Operational Cash Flows from Interest		
Interest received		P89,914,900
Interest paid		59,191,556

(The notes on pages 5 to 64 are an integral part of these financial statements.)

PRODUCERS SAVINGS BANK CORPORATION

NOTES TO FINANCIAL STATEMENTS

AS AT AND FOR THE THREE-MONTH PERIOD ENDED DECEMBER 31, 2012

NOTE 1 - GENERAL INFORMATION

1.1 Corporate information

Producers Savings Bank Corporation (the Bank or PSBC) was registered with the Philippine Securities and Exchange Commission (SEC) on October 1, 2012 to operate as a thrift banking corporation. Likewise, on the same day, the SEC issued the Certificate of Filing of the Articles and Plan of Consolidation by and between Producers Savings Bank Corporation (Producers Bank) and New Rural Bank of Victorias, Inc. (NRBV) to be known as Producers Savings Bank Corporation.

The registration of PSBC with the SEC came after the approval by the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP) of the consolidation of Producers Bank and NRBV to be known as Producers Savings Bank Corporation. The approval was contained in MB Resolution No. 963 dated June 15, 2012. The MB approval also granted several meaningful consolidation incentives to the consolidated bank.

Pursuant to Republic Act (RA) No. 7906 and to MB Resolution No. 963 dated June 15, 2012, the BSP awarded PSBC's Certificate of Authority to operate as a thrift bank on October 8, 2012.

PSBC commenced operations as a consolidated bank on October 12, 2012. When the consolidation took place, Producers Bank had 73 operating branches while NRBV had 5 operating branches and 1 Other Banking Office (OBO).

Under the consolidation, PSBC, the newly-incorporated thrift bank, absorbed all the rights, privileges, immunities, franchises, properties and assets, as well as assumed all the liabilities and obligations of both Producers Bank and NRBV in the same manner as if it had itself acquired all the rights, privileges and assets and incurred such liabilities or obligations.

The consolidation of Producers Bank and NRBV into PSBC is an effective scheme for the purpose of expansion, increasing resources, capital base and for a more effective business operation which the BSP promotes among banks as a means to achieve larger and stronger financial institutions.

The amount of the authorized capital stock of the consolidated bank is two billion pesos (P2,000,000,000) and the said capital stock is divided into one hundred fifty million (150,000,000) shares of common stock with a par value of ten pesos (P10) per share, and fifty million (50,000,000) shares of preferred stock consisting of: (a) preferred-series "A" stock of fifteen million (15,000,000) shares and (b) preferred-series "B" stock of thirty-five million (35,000,000) shares, both with a par value of ten pesos (P10) per share.

The consolidation was treated as a business combination of entities and was accounted for using the acquisition method in accordance with PFRS 3, *Business Combinations*.

The Bank has 81 operating branches and 6 approved but unopened branches as of December 31, 2012. It currently operates in 8 regions, namely, Cordillera Autonomous Region (CAR), Regions I to III, National Capital Region (NCR), Region IV-A (CALABARZON) and in Regions V and VI. The Bank has branches in 21 provinces namely, Pangasinan, La Union, Benguet, Nueva Vizcaya, Quirino, Isabela, Cagayan, Aurora, Nueva Ecija, Bataan, Bulacan, Pampanga, Zambales, Tarlac, Laguna, Quezon, Batangas, Camarines Sur, Albay, Sorsogon and Negros Occidental and in the cities of Baguio and Pasig.

The principal office of the Bank is located at the 17th Floor, One San Miguel Avenue (OSMA), Shaw Boulevard corner San Miguel Avenue, Ortigas Center, Pasig City.

PSBC has a thrift bank subsidiary, namely, Iloilo City Development Bank (ICDBank). The MB of the BSP, in its Resolution No. 373 dated March 6, 2009, approved the investment of Producers Bank in ICDBank up to 49% of the issued and outstanding common shares of the latter. ICDBank, a 50-year-old thrift bank based in Iloilo City, has 8 operating branches at the end of 2012. While Producers Bank owns no more than 49% of the outstanding shares of ICDBank, the latter is considered a subsidiary of Producers Bank as the latter exercises control over ICDBank as defined under BSP Circular 749 and PAS 27, *Separate Financial Statements*.

The table below sets out some details of the Bank's subsidiary:

Name of subsidiary	Place of incorporation	Principal business Activity	December 31, 2012 % of ownership	
			Direct	Indirect
Iloilo City Development Bank	Philippines	Banking	49%	-

Having obtained requisite board and stockholders' approvals, the Bank and ICDBank entered into a Plan of Merger on November 16, 2012 and entered into an Agreement and Articles of Merger on December 21, 2012, with PSBC as the surviving thrift banking entity.

Requests for approval and consent for the said merger was filed on January 8, 2013 with the BSP and the Philippine Deposit Insurance Corporation (PDIC), respectively.

1.2 Approval of financial statements

The financial statements were endorsed for approval by the Bank's Audit Committee, approved and authorized for issue by the Board of Directors (BOD) on March 26, 2013. The Bank's Vice Chairman, President and Chief Operating Officer, Mr. Edmundo C. Medrano, was authorized by the BOD to sign for and on behalf of the BOD, to approve and cause the submission of the audited financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below.

Statement of compliance

The financial statements of the Bank have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, PAS, Philippine Interpretations Committee (PIC)/Standing Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC) interpretations which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

Basis of consolidation

The consolidation was treated as a business combination of entities under common control and was accounted for using the acquisition method in accordance with PFRS 3. Management believes that the transaction has commercial substance. Factors considered in evaluating whether the transaction has commercial substance are as follows:

a. The purpose of the transaction;
b. The involvement of outside parties in the transaction, such as non-controlling interests or other third parties;
c. Whether or not the transaction is conducted at fair value;
d. The existing activities of the entities involved in the transactions;
e. Whether or not the transaction is bringing entities together into a "reporting entity" that did not exist before;
f. Where a new company is established, whether it is undertaken as an integral part of an initial public offering or spin-off or other change in control and significant ownership; and
g. The extent to which an acquiring entity's future cash flows are expected to change as a result of the business combination in which:
   i. The configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the asset transferred or
   ii. The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the combination; and
   iii. The difference in items (i) and (ii) is significant relative to the fair value of the assets exchanged.

Basis of measurement

The Bank's financial statements have been prepared under the historical cost convention except for available-for-sale (AFS) investments that have been measured at fair value and certain financial instruments that have been carried at amortized cost.

The accompanying financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is Philippine Peso (P) and United States Dollar (US$), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine Peso. The financial statements of these units are combined after eliminating inter-unit accounts.

The financial statements of the Bank are presented in Philippine Peso.

The books of accounts of the RBU are maintained in Philippine Peso, while those of the FCDU are maintained in US$.

(a) RBU

As at reporting date, the monetary assets and monetary liabilities of the RBU are translated in Philippine Peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of the period and foreign currency-denominated income and expenses at the exchange rates as at the date of the initial transaction. Foreign exchange differences arising from restatement of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against current operations in the period in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

(b) FCDU

As at reporting date, the assets and liabilities of the FCDU are translated into the Bank's presentation currency (the Philippine Peso) at PDS closing rate prevailing at the financial reporting date, and its income and expenses are translated using the exchange rates as at the dates of the initial transaction. Exchange differences arising from translation to the presentation currency are taken to the statement of comprehensive income under "FCDU translation adjustment". Upon disposal of the FCDU, the deferred cumulative amount is recognized in profit or loss. Producers Bank adopted this policy in 2008 when the BSP issued Circular No. 601 on February 13, 2008. This circular included a provision requiring banks to use the US$ as the functional currency in its FCDU.

Use of judgments and estimates

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Bank. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.2 Changes in accounting policies

(a) New standards, interpretations and amendments effective from January 1, 2012

The new standards, interpretations and amendments effective for the first time from January 1, 2012 of which none have had a material effect on the financial statements of the Bank follow:

- Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters, effective July 1, 2011
- Amendments to PFRS 7: Disclosures - Transfers of Financial Assets, effective July 1, 2011
- Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets, effective January 1, 2012

The adoption of the standards or interpretations is described below.

- **Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters:** The amendments are effective July 1, 2011. Earlier application is permitted. The first amendment replaces references to a fixed date of January 1, 2004 with 'the date of transition to PFRSs', thus eliminating the need for companies adopting PFRSs for the first time to restate derecognition transactions that occurred before the date of transition to PFRSs.

  The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with PFRSs after a period when the entity was unable to comply with PFRSs because its functional currency was subject to severe hyperinflation.

- **Amendments to PFRS 7: Disclosures - Transfers of Financial Assets:** The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

- **Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets:** The amendments are effective January 1, 2012. Earlier application is permitted. The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in PAS 40, *Investment Property*. Under PAS 12, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. However, it is often difficult and subjective to determine the expected manner of recovery when the investment property is measured using the fair value model in PAS 40.

  To provide a practical approach in such cases, the amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

  Philippine Interpretation SIC-21 (PIC-21), *Income Taxes - Recovery of Revalued Non-Depreciable Assets* addresses similar issues involving non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*. The amendments incorporate PIC-21 into PAS 12 after excluding investment property measured at fair value from the scope of the guidance previously contained in PIC-21.

(b) *New standards, interpretations and amendments issued but not yet effective*

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. The Bank intends to adopt the standards that will be applicable to them when they become effective.

- **Amendments to PFRS 1: Government Loans:** The amended standard shall be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The amendments add an exception to the retrospective application of PFRSs. First-time adopters are required to apply the requirements in PFRS 9, *Financial Instruments* (if PFRS 9 is not yet adopted, references to PFRS 9 in the amendments shall be read as references to PAS 39, *Financial Instruments: Recognition and Measurement*) and PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to government loans existing at the date of transition to PFRSs. A first-time adopter may apply the requirements of PFRS 9 and PAS 20 to government loans retrospectively if it has obtained the necessary information to do so.

- **Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities:** The amended standard shall be applied for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The amendment involves the revision of the required disclosures to include information that will enable users to evaluate the effect or potential effect of netting arrangements on an entity's financial position. An entity shall provide the disclosures required by the amendments retrospectively.

- **PFRS 9, Financial Instruments - Recognition and Measurement:** PFRS 9 as issued reflects the first phase of the FRSC work on the replacement of PAS 39 and applies to classification and measurement of financial assets as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the FRSC will address the classification and measurement of financial liabilities, hedge accounting and derecognition. As a new requirement in this standard, an entity choosing to measure a liability at fair value shall present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income rather than within profit or loss.

- **Amendments to PFRS 9 and PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures:** The amended standards shall be applied for annual periods beginning on or after January 1, 2015. Earlier application is permitted. The amendments involve the following: (a) change of the original January 1, 2013 mandatory effective date of PFRS 9 to January 1, 2015; (b) modification of the relief from restating prior periods; and (c) additional required disclosures on transition from PAS 39, *Financial Instruments: Recognition and Measurement* to PFRS 9.

- **PFRS 10, Consolidated Financial Statements:** The new standard is applicable to annual periods beginning on or after January 1, 2013. Earlier application is permitted. PFRS 10 replaces PAS 27, *Consolidated and Separate Financial Statements* and Philippine Interpretation SIC-12 (PIC-12), *Consolidation - Special Purpose Entities.*

  PFRS 10 was developed to eliminate the perceived conflict on the concept of consolidation between PAS 27 (amended in 2008) and PIC-12. PAS 27 (amended in 2008) requires the consolidation of entities based on the power to govern its financial and operating policies whereas PIC-12 mandates consolidation of entities based on risks and rewards.

  PFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. It provides a new definition of control based on three elements: power over the investee, exposure or rights to variable returns from involvement with the investee, and ability to use power over the investee to affect the amount of investor's return.

- **Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities:** The amended standards shall be applied for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. It also sets out disclosure requirements for investment entities into PFRS 12 and amends PAS 27.

- **PFRS 11, Joint Arrangements:** The new standard is applicable to annual periods beginning on or after January 1, 2013. Earlier application is permitted. PFRS 11 supersedes PAS 31, *Interests in Joint Ventures* and Philippine Interpretation SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. This standard requires an entity to account for joint arrangements based on its rights and obligations arising from the arrangement rather than based on the structure of the arrangement as required by PAS 31. PFRS 11 has removed the option to account jointly controlled entities (JCEs) using the proportionate consolidation method. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

- **PFRS 12, Disclosure of Interests in Other Entities:** The new standard is applicable to annual periods beginning on or after January 1, 2013. Earlier application is permitted. PFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.

- **PFRS 13, Fair Value Measurement:** The new standard is applicable to annual periods beginning on or after January 1, 2013. Earlier application is permitted. PFRS 13 was developed to eliminate inconsistencies of fair value measurements dispersed in various existing PFRSs. It defines fair value, sets out in a single PFRS a framework for measuring fair value and requires disclosures about fair value measurements. PFRS 13 applies when other PFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in PFRSs or address how to present changes in fair value.

- **Amendments to PAS 1: Presentation of Items of Other Comprehensive Income:** The new requirements are effective for annual periods beginning on or after July 1, 2012. Earlier application is permitted. The amendments improved the consistency and clarity of the presentation of items of other comprehensive income. The amendments also highlighted the importance that the board places on presenting profit or loss and other comprehensive income together and with equal prominence.

  The main change resulting from the amendments was a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments did not address which items are presented in other comprehensive income. The amendments did not change the option to present items of other comprehensive income either before tax or net of tax. However, if the items are presented before tax, then the tax related to each of the two groups of other comprehensive income items (those that might be reclassified and those that will not be reclassified) must be shown separately.

- **PAS 19 (Amended), Employee Benefits:** The amended standard is applied retrospectively with limited exceptions. Entities shall apply the amended PAS 19 for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The amendments will improve the recognition and disclosure requirements for defined benefit plans. Significant changes to this standard include: elimination of the corridor approach and recognition of all actuarial gains and losses in other comprehensive income as they occur; immediate recognition of all past service costs; and the replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

- **PAS 27 (Amended), Separate Financial Statements:** The amended standard is applicable to annual periods beginning on or after January 1, 2013. Earlier application is permitted. PAS 27 (Amended) contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. It requires an entity preparing separate financial statements to account for those investments at cost or in accordance with PFRS 9, *Financial Instruments*.

- **PAS 28 (Amended), Investments in Associates and Joint Ventures:** The amended standard is applicable to annual periods beginning on or after January 1, 2013. Earlier application is permitted. PAS 28 (Amended) prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

- **Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities:** The amended standard shall be applied for annual periods beginning on or after January 1, 2014 and should be applied retrospectively. Earlier application is permitted. This amendment provides an additional application guidance for offsetting in accordance with PAS 32. It clarifies the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

- **Philippine Interpretation IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine:** This interpretation shall be applied for annual periods beginning on or after January 1, 2013 prospectively. Earlier application is permitted. This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs') and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

The Bank, however, expects no significant impact from the adoption of the new standards, interpretation and amendments on its financial position and performance.

Annual Improvements to PFRSs 2009 - 2011 Cycle

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

- **PFRS 1, First-time Adoption of Philippine Financial Reporting Standards:** Clarifies that the company is required to apply PFRS 1 when the most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with PFRSs, even if the company applied PFRS 1 in a reporting period before the period reported in the most recent previous annual financial statements.

- **PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information**: Clarifies the requirements for providing comparative information when the company provides financial statements beyond the minimum comparative information requirements. Where the company changes its accounting policies or makes retrospective restatements or reclassifications of items in the financial statements, the company is required to present an opening statement of financial position at the beginning of the required comparative period, and the related notes are not required to accompany this opening statement of financial position.

- **PAS 16, Property, Plant and Equipment - Classification of Servicing Equipment:** Clarifies that servicing equipment should be recognized as property, plant and equipment when it is used during more than one period and as inventory otherwise.

- **PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments:** Clarifies that income tax relating to distribution to holders of an equity instrument and to transaction costs of an equity transaction are accounted for in accordance with PAS 12.

- **PAS 34, Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities:** Clarifies that the total assets for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements.

2.3 Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP, and due from other banks with maturities of less than three months from the date of acquisition and that are subject to insignificant risk of changes in value.

Cash and other cash items include local currency coins and checks on hand.

2.4 Financial instruments

Date of recognition

Financial assets and financial liabilities are recognized in the statement of condition when the Bank becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the timeframe established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks and loans are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition

All financial instruments are initially measured at fair value. Except for fair value through profit or loss (FVPL) investments and liabilities, the initial measurement of financial assets and financial liabilities includes transaction costs. Financial instruments carried at FVPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

Classification of financial instruments

The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

Financial assets

The Bank classifies its financial assets as (a) financial assets at FVPL, (b) held-to-maturity investments (HTM), (c) loans and receivables or (d) available-for-sale investments.

(a) Financial assets at fair value through profit or loss

Financial assets at FVPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Subsequent to initial recognition, the financial assets at FVPL are measured at fair value with changes in fair value recognized in profit or loss. The Bank does not have financial assets under this category.

(b) Held-to-maturity investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold to maturity. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Gains and losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through the amortization process.

(c) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments (i) that are not quoted in an active market, (ii) with no intention of trading, and (iii) that are not designated as AFS investments or financial assets at FVPL. Significant accounts falling under this category are loans and receivables, due from BSP and other banks, security deposits and sinking fund. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest method, less provision for probable losses.

(d) Available-for-sale investments

AFS investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in market conditions. After initial measurement, AFS investments are subsequently measured at fair value with unrealized gains (losses) recognized as other comprehensive income (losses) in the statement of comprehensive income until the investment is derecognized, at which time the cumulative gain (loss) is recognized in other operating income (expenses), or determined to be impaired, at which time the cumulative loss previously recognized as other comprehensive loss in the statement of comprehensive income is recognized in profit or loss.

The Bank evaluates its AFS investments whether the ability and intention to sell them in the near term are still appropriate. When the Bank is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Bank may elect to reclassify these assets for the foreseeable future or until maturity. Reclassification to the HTM category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

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

The Bank's placements in BSP's special deposit accounts that are coursed through the trust departments of other banks via directed investment management accounts are included in this category (see Note 12).

Financial liabilities

Financial liabilities are classified as (a) financial liabilities at FVPL (including financial liabilities held for trading and those that are designated at fair value) and (b) financial liabilities measured at amortized cost.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the statement of comprehensive income. The Bank has no financial liabilities that are designated at FVPL.

The Bank's financial liabilities measured at amortized cost include deposit liabilities, bills payable, redeemable preferred shares, unsecured subordinated debt, and financial liabilities under accrued interest, taxes and other payables (other than government liabilities).

Deposit liabilities are recognized initially at fair value and subsequently measured at amortized cost less settlement payments.

Bills payable and unsecured subordinated debt are recognized initially at fair value, being their issue proceeds, net of transaction costs incurred. They are subsequently stated at amortized cost; any difference between the proceeds, net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the EIR.

Accrued expenses and other payables are recognized in the period in which the related money, goods or services are received or when a legally enforced claim against the Bank is established. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees. It is necessary to estimate the amount of timing of accruals; however, the uncertainty is generally much less than for provisions.

Preference shares which are mandatorily redeemable on a specific date are classified as liabilities. The dividends on these preference shares are recognized as finance expenses.

Classification of financial instruments between debt and equity

Financial instruments are classified as debt or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability is reported as expense or income.

Offsetting of financial instruments

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

Determination of fair value

The fair value for financial instruments traded in active markets is based on their quoted market price or dealer price quotation (bid price for long positions and ask price for short positions). When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

If the financial instruments are not listed in an active market, the fair value is determined using appropriate valuation techniques, which include recent arm's length market transactions, net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

The fair values of the Bank's financial instruments are presented in Note 6.

Fair value hierarchy

PFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement (see Note 6).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

Impairment of financial assets

Assessment of impairment

The Bank assesses at each financial reporting date whether a financial asset or group of financial assets is impaired. It assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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.

The determination of impairment losses for financial assets is inherently subjective because it requires material estimates, including the amount and timing of expected recoverable future cash flows. These estimates may change significantly from time to time, depending on available information.

Evidence of impairment

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment on assets carried at amortized cost

If there is an objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original EIR (i.e. the EIR computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in the statement of comprehensive income.

Impairment on assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an asset carried at cost such as an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 discounted at the current market rate of return for a similar financial asset.

Reversal of impairment loss

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, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in other operating income in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its cost or amortized cost at the reversal date.

Derecognition of financial instruments

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when: (a) the rights to receive cash flows from the asset have expired; (b) the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or (c) the Bank has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

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

2.5 Investment in a subsidiary

Where the Bank has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary.

The Bank's investment in a subsidiary is accounted for at cost, less any impairment loss. Impairment loss is provided when there is objective evidence that the investment in a subsidiary will not be recovered. The impairment loss is measured as the difference between the carrying amount of the investment and the present value of the estimated cash flows discounted at the current market rate of return for similar financial asset. Impairment loss is recognized in profit or loss.

2.6 Bank premises, furniture, fixtures and equipment

Depreciable properties including leasehold improvements, transportation equipment, and bank premises, furniture and fixtures are stated at cost less accumulated depreciation and amortization, and any impairment in value. The initial cost of bank premises, furniture, fixtures and equipment is comprised of the purchase price and costs directly attributable to bringing the asset to its intended use. Subsequent expenditures incurred after the asset has been put into operation are capitalized as additional cost of the asset when the resulting future economic benefit exceeds the originally assessed standard of performance of the asset. All other subsequent expenditures such as repairs and maintenance are recognized in profit or loss in the period the costs are incurred. Renewals and betterments, which improve the original assessed standard of performance of the property, are capitalized to the appropriate property account. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and any impairment in value are removed from the accounts and any resulting gain or loss arising from the disposal or retirement of an asset, determined as the difference between the sales proceeds and the carrying amount of the asset, is recognized in profit or loss.

Depreciation is computed using the straight-line methods over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the improvements.

The estimated useful lives of the assets and improvements are as follows:

Bank premises, furniture and fixtures	1-20 years
Transportation equipment	5-10 years
Leasehold improvements	5-20 years

The useful lives and the depreciation and amortization methods are reviewed periodically to ensure that the periods and the methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment.

2.7 Investment properties

Property that is held either to earn rental income or for capital appreciation or for both and that is not significantly occupied by the Bank is classified as investment property.

Investment properties, which consist of real and other properties acquired, such as land and building, are initially stated at the carrying amount of the loan plus booked accrued interest less allowance for probable losses plus transaction costs incurred upon acquisition.

An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under "Investment properties" upon (a) entry of judgment in case of judicial foreclosure; (b) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or (c) notarization of the Deed of Dacion in case of dation in payment (dacion en pago).

Subsequent to initial recognition, investment properties, except for land, are stated at cost less accumulated depreciation and any impairment in value. Land is stated at cost less any impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any resulting gain or loss from the retirement or disposal of an investment property is included in profit or loss in the period of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the period in which the costs are incurred. Depreciation of building classified as investment property is calculated on a straight-line basis over its estimated useful life of ten years from the date of acquisition.

Investment property shall be derecognized and be considered as asset held for sale upon receipt of offer to purchase from the buyer. The sale shall be recorded when ownership has been transferred to the buyer.

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

2.8 Assets held for sale

Assets held for sale include investment properties that the Bank intends to sell within one year from the date of classification as held for sale.

Assets held for sale are measured at the lower of the carrying amounts of the related loan less allowance for probable losses at the time of foreclosure and their fair value less costs to sell. Impairment loss is recognized for any subsequent write-down of the asset to fair value less costs to sell. Assets held for sale are not subject to depreciation or amortization. The gain or loss arising from the sale or revaluation of assets held for sale is included as part of other operating income (expenses) in the statement of comprehensive income.

2.9 Intangible assets

Intangible assets include software license costs and goodwill, which are accounted for under the cost model.

Software licenses

Software license is stated at cost less any impairment in value. The cost of acquired computer software license is capitalized on the basis of the costs incurred to acquire and install the specific software. The license has an indefinite term, but is tested for impairment at the end of each reporting date.

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

Goodwill

Goodwill is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. Goodwill shall be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired by comparing the present value of the expected future cash flows from a cash generating unit with the carrying value of its net assets, including attributable goodwill carried at cost less accumulated impairment loss.

2.10 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets such as investment in a subsidiary, bank premises, furniture, fixtures and equipment, investment properties, assets held for sale, intangible assets and other resources are reviewed at each reporting date to determine whether there is any indication of impairment or an impairment loss previously recognized no longer exists or may have decreased. If any such indication exists, the Bank makes a formal estimate of the asset 's recoverable amount.

The recoverable amount is the higher of an asset or its cash generating unit's (CGU) fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Whenever the carrying amount of an asset or its CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount and an impairment loss is recognized in profit or loss in the period in which it arises. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in profit or loss.

2.11 Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to income as they are consumed in the operations or expire with the passage of time.

2.12 Provisions and contingencies

Provisions are recognized when: (a) the Bank has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost. When the Bank expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is charged against profit or loss, net of any reimbursement.

Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the Bank's financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the Bank's financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable.

2.13 Borrowings

The Bank's borrowings consist mainly of bills payable and unsecured subordinated debt. Borrowings are recognized initially at fair value, being their issue proceeds, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds, net of transaction cost and the redemption value is recognized in the statement of comprehensive income over the period of the borrowing using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction, or production of qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred.

2.14 Capital funds

Common share is determined using the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the initial issuance of share capital. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Surplus free includes all current and prior period results as disclosed in the statement of changes in capital funds, free of any restriction.

2.15 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and revenue can be reliably measured.

The additional specific recognition criteria for each type of revenue are as follows:

Interest income on loans and receivables

Interest income on loans and receivables is recognized in the statement of comprehensive income for all financial instruments measured at amortized cost using the effective interest method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the EIR, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the EIR, 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 impairment loss.

Interest income on deposits, placements and investments

Interest income on deposits, placements and investments is recognized as the interest accrues usually on a time proportion basis taking into account the effective yield on the asset or EIR, and is presented net of applicable tax withheld by banks.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and credit-related fees. Service fees are collected from borrowers to cover direct and indirect expenses in processing credit applications.

Other Income

Other income is recognized in the period it is earned.

2.16 Interest expense

Interest expense on deposit liabilities is recognized in the statement of comprehensive income when incurred. It is calculated using the effective interest method and is credited to the depositors' accounts regularly.

Interest incurred on bills payable and other borrowings is recognized in the statement of comprehensive income when incurred.

2.17 Expense recognition

Expenses are recognized in the statement of comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of condition as an asset. Operating expenses are costs attributable to administrative and other business activities of the Bank.

2.18 Retirement benefit costs

The Bank has a partially funded and non-contributory, defined benefit retirement plan covering all of its regular employees. Retirement benefit cost is determined using the projected unit credit method as determined by an independent actuary taking into account the factors of investment, mortality, disability and salary projection rates on an actuarial basis. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period.

The liability recognized in the statement of condition in respect of defined benefit retirement plan is the present value of the defined benefit obligation at the financial reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These excess gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost, if any, is recognized immediately as expense, unless it is conditional on the employees remaining in service for a specified period of time or vesting period. In this case, the past service costs are amortized on a straight-line basis over the vesting period.

The Bank recognizes a retirement benefit liability if the difference between the total of the present value of the defined benefit obligation and any actuarial gains not recognized and the total of the past service cost and actuarial losses not yet recognized and the fair value of plan assets results to a positive. If such difference results to a negative, the Bank recognizes a plan asset which is measured at the lower of such difference or the total of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

2.19 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

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

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

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the statement of comprehensive income under 'Interest expense'.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term.

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

2.20 Income taxes

Income tax expense represents the sum of the current income tax and deferred income tax.

Current income tax

Current income tax assets and liabilities for the current and the prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, determined at the end of every quarter, subject to adjustments at the end of the period when a final or adjustment return is filed and the corresponding annual income tax is computed and determined to be recovered or paid. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Bank's liability for current tax is calculated on the basis of the tax laws enacted or substantively enacted at the financial reporting date.

Deferred income tax

Deferred income tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit and are accounted for using the liability method, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where an entity is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the financial reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences while deferred tax assets are generally recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and carryforward of unused tax credits and NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities and they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognized as an expense or income in the statement of comprehensive income, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in capital funds), in which case the tax is also recognized outside profit or loss.

2.21 Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. The key management personnel of the Bank are also considered to be related parties. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

2.22 Events after the financial reporting date

Events after the financial reporting date up to the date of the auditors' report that provide additional information about the Bank's position at financial reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to the financial statements when material.

NOTE 3 - SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Judgments

(a) Functional currency

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

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

(b) Operating leases

The Bank has entered into operating lease agreements on premises it uses for its operations. The Bank has determined that all significant risks and rewards of ownership of the properties it leases on operating lease are not transferable to the Bank.

(c) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of condition cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These estimates may include consideration of liquidity, volatility and correlation.

(d) HTM investments

The classification under HTM investments requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - the Bank will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost.

Refer to Note 13 for the carrying amount of HTM investments.

(e) Financial assets not quoted in an active market

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

(f) Fair value of acquired assets classified as either investment properties or assets held for sale

The Bank determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties.

The carrying amounts of investment properties are disclosed in Note 16.

(g) Classification of acquired properties

The Bank classifies its acquired properties as bank premises, furniture, fixtures and equipment if used in operations, as assets held for sale if expected that the properties will be recovered through sale rather than use, as investment properties if intended to be held for capital appreciation or as financial assets if qualified as such in accordance with PAS 39.

Estimates

(a) Allowance for probable losses on loans and receivables

The Bank reviews its loans and receivables at each reporting date to assess whether a provision for probable losses should be recorded in the statement of comprehensive income. In particular, the management estimates the amount and timing of future cash flows based on a number of factors and calculates the provision. Actual results may differ, at which event the Bank adjusts the provision for probable losses and ensures that allowance for it remains adequate.

Allowance for probable losses, which consists of both specific and general loan loss provision, represents management's estimate for probable losses inherent in the loan portfolio after consideration of prevailing and anticipated economic conditions, prior loss experience and evaluations made by the BSP.

The Bank observes the BSP criteria and guidelines, including the adoption and implementation of an Internal Credit Risk Rating System (ICRRS). One component of ICRRS is the Borrower's Risk Rating (BRR) which requires an assessment of the creditworthiness of the borrower, focusing on the outlook for loan repayment without considering the type or amount of the facility, or its security arrangements.

Recoverability of specific receivables is evaluated based on the BRR focusing on the borrower's credit quality based on factors such as the borrower's: a) stability, b) access to financial markets, c) ability to service debt, d) financial position strength, and e) external rating by agencies, where applicable.

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. This collective allowance is based on changes in factors that are indicative of incurred losses, such as deterioration in payment status and underlying property prices, among others.

BSP regulations require banks to set up a general provision for impairment losses equivalent to 5% of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk under existing regulations; and 1% of the outstanding balance of unclassified loans other than restructured loans less loans which are considered non-risk under existing regulations.

The allowance for probable losses is established through provision for probable losses charged to current operations. Loans are written off against the allowance for probable losses when management believes that the collectibility of the principal is unlikely.

Refer to Notes 10 and 11 for the carrying amounts of loans and receivables, and allowance for probable losses, respectively.

(b) *Valuation of unquoted equity securities*

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

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

The determination of the cash flows and discount factors for unquoted equity securities requires significant estimation. The Bank calibrates the valuation techniques periodically and tests them for validity using either price from observable current market transactions in the same instrument or from other available observable market data.

(c) *Estimation of useful lives and residual values of banks premises, furniture, fixtures and equipment, and investment properties*

The Bank estimates the useful lives of depreciable bank premises, furniture, fixtures and equipment, and investment properties for purposes of computing depreciation and amortization based on the period over which the assets are expected to be available for use. Their estimated useful lives 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. The collective assessment of industry practice, internal technical evaluation and experience with similar assets are also considered in the estimation.

It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors previously mentioned.

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, and investment properties would increase recorded other operating expenses and decrease resources.

The carrying amounts of bank premises, furniture, fixtures and equipment, and investment properties are shown in Notes 15 and 16, respectively.

(d) Impairment of non-financial assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.10. Though management believes that the assumptions used in the estimation of fair values reflected in the 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 of the Bank.

The carrying values of investment in a subsidiary, bank premises, furniture, fixtures and equipment, investment properties, assets held for sale, intangible assets and other resources are disclosed in Notes 14, 15, 16, 17, 19 and 20, respectively.

Goodwill

The Bank's management conducts an annual review for any impairment in value of the goodwill. Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the business is insufficient to support its carrying value. The Bank used its weighted average cost of capital in discounting the expected cash flows from specific CGUs.

Future cash flows from the business are estimated based on the theoretical annual income of the CGUs. Average growth rate was derived from the average increase in annual income during the last 5 years.

The recoverable amount of the CGUs has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 12%.

Key assumptions in value-in-use calculation of CGUs are most sensitive to the following assumptions: a) interest margin; b) discount rates; and c) projected growth rates used to extrapolate cash flows beyond the budget period.

The carrying amount of the Bank's goodwill is presented in Note 19.

(e) Present value of retirement liability

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

The expected rates of return on plan assets and discount rate were based on market prices prevailing on the date of valuation, applicable to the period over which the obligation is to be settled. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of financial reporting date. Refer to Note 31 for the details of assumptions used in the calculation and the present value of the Bank's retirement liability.

(f) Recognition of deferred income taxes

The Bank reviews the carrying amounts of deferred income taxes at each financial reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Estimates of future taxable income indicate that temporary differences will be realized in the future (see Note 30).

(g) Contingent liabilities

The Bank is a defendant in legal actions arising from normal business activities. Management believes that the ultimate liability, if any, resulting from these cases will not have a material effect on the Bank's financial statements (see Note 32).

NOTE 4 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to a variety of financial risks arising from its operating, investing and financing activities. The BOD has overall responsibility for the Bank's financial risk management, which includes establishment and approval of risk strategies, policies and limits. The BOD created the Audit, Corporate Governance and Risk Management Committees to closely monitor and evaluate the Bank's financial risk in line with the strategies, policies and limits set by the BOD. The main objective of the financial risk management is to minimize the adverse impact of financial risks on the Bank's financial performance and financial position due to the unpredictability of financial markets.

The Bank's principal financial instruments consist of due from BSP, due from other banks, AFS investments, loans and receivables, HTM investments, sinking fund, deposit liabilities, bills payable, redeemable preferred shares and unsecured subordinated debt. The main purpose of these financial instruments is to generate income and raise finances for the Bank's operations.

The main risks arising from the Bank's use of financial instruments are summarized as follows:

(a) Credit risk and concentration limit

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration limits for the Bank are set by types of borrowers and loan classifications. In setting the concentration limits, the Bank considers the BSP regulations.

To avoid significant concentration of credit risk on the Bank's loans and receivables, the Bank spreads out its risk by setting limits on loan amounts that are way, way below the Bank's allowable single borrower's limit and sets a limit on industry concentration. The Bank's system of credit approval is such that the higher the credit exposure, the more approving bodies are required to review and approve the credit proposal.

To mitigate credit risk, the Bank as a matter of policy has set a target of having at least 70% of total loan portfolio secured by tangible collateral, predominantly by way of registered mortgages on real properties. An independent unit in the Bank validates property appraisal, title verification, credit investigation and credit evaluation done by the loan originating branches. Insurance coverage and assignment of the insurance policies in favor of the Bank is required on these assets (e.g., improvements on real properties, motor vehicles, etc.). Further, the Bank requires that the borrowers themselves be insured (e.g., life insurance, mortgage redemption insurance, etc.) and the insurance policies assigned in favor of the Bank.

The Bank's maximum exposure to credit risk before collateral held or other credit enhancements at December 31, 2012 follows:

Due from BSP (Note 8)	P144,058,438
Due from other banks (Note 9)	658,913,405
Loans and receivables, net (Note 10)	5,006,131,477
AFS investments (Note 12)	817,903,024
HTM investments (Note 13)	20,000,000
Sinking fund (Note 18)	42,645,973
Other resources - security deposits (Note 20)	4,319,853
	P6,693,972,170

In 2010, the BOD of Producers Bank approved the launching of a loan product to lend to small farmers who may have no access to formal credit institutions because the land they are tilling are small and are not covered by transfer certificate of title. The loan had been proposed to be covered by a guarantee or surety to be executed in favor of the Bank by the Agricultural Guarantee Fund Pool (AGFP).

AGFP was established by virtue of Administrative Order No. 225-A issued by former President Gloria Macapagal-Arroyo on May 26, 2008 to mitigate the risk involved in agricultural lending thereby facilitating the provision of credit in the agriculture sector. The AGFP shall encourage private financial institutions and other credit conduits to expand their outreach to new small farmer and fisherfolk (SFF) borrowers; and/or expanded lending to existing SFF borrowers by providing guarantee coverage to unsecured loans extended by the private financial institutions and other credit conduits to SFF borrowers engaged in palay and/or food production projects/activities.

In 2007, the BOD of Producers Bank also approved an ICRRS, which is a loan review and loan loss provisioning system that clearly sets forth the criteria for uniformly classifying loans. ICRRS has three (3) components, namely:

- the Borrower Risk Rating which requires an assessment of the creditworthiness of the borrower, focusing on the outlook for loan repayment without considering the type or amount of the facility, or its security arrangements. The criteria to be assessed here are those which have a direct bearing on the borrower's long-term chances of survival and the factors directly to these. Although the borrower's financial condition is evaluated on the basis of the past three years' historical financial statements, this is primarily to determine any trend in the entity's financial condition going forward, and how it will impact the borrower's future solvency, or debt-service capabilities. The BRR is determined by focusing on the borrower's credit quality based on factors such as the borrower's: (a) stability, (b) access to financial markets, (c) ability to service debt, (d) financial position strength, and (e) external rating by agencies, where applicable;

- the Facility Risk Factor ("FRF") which is determined for each individual facility, taking into account the different security arrangements, or risk influencing factors, to allow a more precise depiction of risk. FRF is determined based on security arrangements supporting the facility. Since the FRF focuses on the quality and quantity of the collateral cover applicable to the underlying facility, independent of borrower quality, the FRF can upgrade the BRR on the basis of the facility's collateral position, or can downgrade it due to risk-enhancing features;

- the Adjusted Borrower Risk Rating ("ABRR") which is the result of the combination of the BRR and FRF; and

- the Composite Risk Rating (CRR) which is the result of the weighted average ABRR to be used to determine the CRR of borrowers with multiple facilities.

Excessive risk concentration

Credit risk can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. The Bank analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables, and (2) financial investment securities. To mitigate risk concentration, the Bank constantly checks for breaches in regulatory and internal limits. The Bank manages credit risk through a continuing review of credit policies, system and procedures.

Concentrations of risk of financial assets with credit risk exposure

An analysis of concentrations of credit risk by industry at the reporting date based on carrying amount (gross of allowance for probable losses) at December 31, 2012 is shown below:

Concentration by industry	Loans and receivables	Due from BSP and other banks	AFS investments	HTM investments	Sinking fund	Other resources - security deposits	Total
Financial intermediaries	P868,000,000	P802,971,843	P817,903,024	P20,000,000	P42,645,973	P-	P2,551,520,840
Agriculture, hunting and forestry	1,393,625,615	-	-	-	-	-	1,393,625,615
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	697,944,271	-	-	-	-	-	697,944,271
Real estate, renting and business activities	431,633,655	-	-	-	-	4,319,853	435,953,508
Construction	266,502,200	-	-	-	-	-	266,502,200
Fishing	243,866,132	-	-	-	-	-	243,866,132
Manufacturing	226,777,068	-	-	-	-	-	226,777,068
Transportation, storage and communication	218,689,045	-	-	-	-	-	218,689,045
Hotels and restaurants	191,085,792	-	-	-	-	-	191,085,792
Education	72,368,951	-	-	-	-	-	72,368,951
Electricity, gas and water	20,679,318	-	-	-	-	-	20,679,318
Other community, social and personal service activities	280,957,177	-	-	-	-	-	280,957,177
	P4,912,129,224	P802,971,843	P817,903,024	P20,000,000	P42,645,973	P4,319,853	P6,599,969,917

The aging analysis of financial assets (gross of allowance for probable losses) at December 31, 2012 follow:

	Total	Neither past due nor impaired	Past due but not impaired 30 days	31-90 days	91-180 days	> 180 days	Impaired
Due from BSP	P144,058,438	P144,058,438	P-	P-	P-	P-	P-
Due from other banks	658,913,405	658,913,405	-	-	-	-	-
Loans and receivables	5,073,935,163	4,831,021,695	47,223,946	45,347,072	51,425,874	82,058,433	16,858,143
AFS investments	817,903,024	817,903,024	-	-	-	-	-
HTM investments	20,000,000	20,000,000	-	-	-	-	-
Sinking fund	42,645,973	42,645,973	-	-	-	-	-
Other resources - Security deposits	4,319,853	4,319,853	-	-	-	-	-
	P6,761,775,856	P6,518,862,388	P47,223,946	P45,347,072	P51,425,874	P82,058,433	P16,858,143

Credit quality per class of financial assets

The credit quality of the Bank's financial assets that are neither past due nor impaired is considered to be of good quality and expected to be collectible without incurring any credit losses.

However, the Bank provides for allowance for probable losses not only on impaired accounts but also on past due but not impaired and neither past due nor impaired accounts following the provisioning guideline of the BSP which is based on loan classification.

Loans are secured either by real estate, chattel or other assets (see Note 10).

The Bank's bases in grading its financial assets are as follows:

High grade - These are receivables which have a high probability of collection (the counterparty has the apparent ability to satisfy its obligation and the security on the receivables is readily enforceable).

Standard - These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but have been outstanding for a certain period of time.

Substandard - These are receivables that can be collected provided the Bank makes persistent effort to collect them.

The table below shows the credit quality by class of financial assets of the Bank based on their historical experience with the corresponding parties.

	Neither past due nor impaired High Grade	Standard grade	Substandard grade	Total
Loan and receivables				
Due from BSP	P144,058,438	P-	P-	P144,058,438
Due from other banks	658,913,405	-	-	658,913,405
Loans and receivables	4,831,021,695	-	-	4,831,021,695
Sinking fund	42,645,973	-	-	42,645,973
Other resources - Security deposits	4,319,853	-	-	4,319,853
AFS investments	817,903,024	-	-	817,903,024
HTM investments	20,000,000	-	-	20,000,000
	P6,518,862,388	P-	P-	P6,518,862,388

(b) Market risk

Market risk is the risk of loss of future earnings or future cash flows arising from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchanges rates, equity prices and other market changes. The Bank's market risk is manageable within conservative bounds. As of December 31, 2012, the Bank has not engaged in trading financial instruments.

However, in the event the Bank starts a securities portfolio, the Bank's Risk Management Manual has already defined limits for the following:

- Specific type and currency of security;
- Years to maturity; and
- Maximum portfolio amount per currency.

Interest rate risk

Interest rate risk is the risk to earnings or capital resulting from adverse movements in the interest rates. The economic perspective of interest rate risk focuses on the value of a bank in the current interest rate environment and the sensitivity of that value to changes in interest rates.

The Bank mitigates interest rate risk (risk of loss or the risk of reduction in income due to changes in the interest rate environment) through the Asset and Liability Management Committee (ALCO). The Bank also monitors and measures the interest rate risk using an interest rate gap analysis. The gap analysis measures, for any given period, any mismatch between the amounts of interest-bearing assets and interest-bearing liabilities, which would mature or reprice during the period.

Interest rate risk is also addressed by the Bank by setting prudential limits on short-term loans vis-à-vis medium-term loans (maximum limit of 30% of total outstanding loans receivable). Short-term loans allow the Bank the flexibility to adjust loan pricing quickly should interest rates move up with respect to its sources of funds. Medium-term loans, on the other hand, are generally re-priced periodically. In cases of medium-term loans whose interest rates are fixed, the interest rate generally provides sufficient cushion in terms of spread over sourcing rates.

The Bank also maintains a very large portion of its deposit base in short-term deposits. No interest is paid on demand deposits, and the interest rates on savings and time deposits are set by reference to prevailing market rates being quoted by the commercial banks.

The Bank also makes an extensive use of rediscounting funds, the interest rates on which are generally fixed for the entire term, thus assuring that the interest spread of the Bank is maintained at all times.

The Bank closely monitors the movements of interest rates in the market and reviews its assets and liability structure to ensure that exposures to fluctuations in interest rates are kept within acceptable limits.

The following table demonstrates the sensitivity of income before income tax and capital funds for the three-month period ended December 31, 2012 to a reasonably possible change in interest rates, with all other variables held constant:

Increase/(decrease) in rate	1%	(1)%
Effect on income before income tax	P8,178,081	(P8,178,081)
Effect on capital funds	P8,178,081	(P8,178,081)

The interest rates for the interest-bearing financial instruments as of December 31, 2012 are as follows:

	Within 1 year	1-5 years	> 5 years
Due from BSP	3.5%	-	-
Due from other banks	0.25% to 2.635%	-	-
Loans and receivables	5.75% to 18%	12% to 18%	16% to 18%
AFS investments	5.615% to 5.725%	-	-
HTM investments	-	-	7.25% to 9%
Sinking fund	-	3.5% to 6%	-
Deposit liabilities	0% to 4.5%	5%	-
Bills payable	3.5% to 6.30%	-	-
Redeemable preferred shares	-	T-bill rate plus 2% to 3%	-
Unsecured subordinated debt	-	-	9.1192%

Foreign exchange risk

The Bank manages its exposure to the effects of fluctuations in the foreign currency exchanges by complying with existing regulatory guidelines on the FCDU and by limiting such exposure within the limits that management believes to be relatively conservative for the size of the Bank. Below are the details of the Bank's FCDU at December 31, 2012:

	US Dollar	Peso
Financial assets		
Due from other banks	587,519	24,134,992
Available for sale investments	142,010	5,829,528
	729,529	**29,964,520**
Financial liabilities		
Deposit liabilities	727,273	29,854,557
Other liabilities	233	9,565
	727,506	**29,864,122**
Net currency risk exposure	**2,023**	**100,398**

The net currency risk is the difference between foreign currency assets and foreign currency liabilities.

Interest earned from FCDU amounted to P137,032 for the three-month period ended December 31, 2012.

(c) Liquidity risk

Liquidity risk is the risk from inability to meet obligations when they become due because of inability to liquidate assets or obtain adequate funding. The Bank ensures that sufficient liquid assets are available to meet short-term funding and regulatory requirements. The Bank mitigates liquidity risk through the ALCO and Treasury Management Department, who ensures that sufficient liquid assets are available to meet short-term funding and regulatory requirements. The amount and the sources of funds (such as secondary liquidity reserves, unused credit lines and rediscounting lines) that are available to the Bank and the circumstances under which the Bank may use those funds are determined on a weekly basis. The Bank requires all branches to maintain liquid assets to total deposits/other liabilities ratio of at least 20% or 15% liquidity reserves, net of legal reserves.

The Bank's liquidity, cash and reserves position are monitored on a daily basis. The Bank maintains sufficient liquidity reserves in the form of high-yielding placements with BSP, deposits with other banks and investments in government securities. The Bank has also obtained sufficient liquidity lines from other banks and non-banking lending institutions that can relieve financial pressures in the event of an extraordinary demand for liquidity. Further, the Bank actively rediscounts loans with the many entities that have given the Bank more than sufficient rediscounting lines.

The maturity grouping of financial instruments is based on the remaining period from the end of the reporting period to the contractual maturity date. For financial liabilities, when counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

The table below summarizes the maturity profile of financial instruments based on contractual undiscounted cash flow.

	December 31, 2012					
	Total	On demand	<3 months	3-12 months	1-5 years	> 5 years
Financial assets						
Cash and other cash items	P179,000,272	P179,000,272	P-	P-	P-	P-
Due from BSP	144,058,438	144,058,438	-	-	-	-
Due from other banks	658,913,405	658,913,405	-	-	-	-
Loans and receivables	5,073,935,163	1,272,719,407	1,308,549,226	1,521,703,613	776,699,660	194,263,257
AFS investments	817,903,024	-	-	-	-	817,903,024
HTM investments	20,000,000	-	-	-	-	20,000,000
Sinking fund	42,645,973	42,645,973	-	-	-	-
Other resources - security deposits	4,319,853	4,319,853	-	-	-	-
	6,940,776,128	2,301,657,348	1,308,549,226	1,521,703,613	776,699,660	1,032,166,281
Financial liabilities						
Deposit liabilities	3,195,460,506	2,113,451,295	782,538,675	129,371,276	170,099,260	-
Accrued interest, taxes and other payables	42,168,642	-	42,168,642	-	-	-
Bills payable	2,794,828,212	-	711,855,931	1,873,170,655	209,801,627	-
Redeemable preferred shares	40,000,000	40,000,000	-	-	-	-
Unsecured subordinated debt	120,000,000	-	-	-	120,000,000	
Other liabilities	445,059,535	445,059,535	-	-	-	-
	6,637,516,895	2,598,510,830	1,536,563,248	2,002,541,931	499,900,887	-
Net asset (liability)	P303,259,233	(P296,853,483)	(P228,014,022)	(P480,838,318)	P276,798,773	P1,032,166,281

NOTE 5 - CAPITAL MANAGEMENT

The primary objective of the Bank's capital management is to ensure the ability of the Bank to have sufficient capital to underpin the Bank's risk-taking activities, to continue as a going concern, to maintain a strong credit rating and quality capital adequacy ratios, to ensure compliance with BSP regulations and to provide reasonable returns and benefits to its shareholders.

The BOD has the overall responsibility for monitoring the Bank's capital structure and making the necessary adjustments to address the risks and adapt to changes in economic conditions and regulatory requirements. The Bank's BOD and management ensure that all required ratios set by the BSP are being complied with and has set maximum limits on risk exposures.

On August 4, 2006, the BSP issued Circular No. 538, The Revised Risk-based Capital Adequacy Framework for the Philippine Banking system to conform to BASEL II recommendation. These BSP guidelines took effect on July 1, 2007. The details of the Bank's capital-to-risk assets ratio (CAR) at December 31, 2012 as reported to the BSP follow:

Ti er 1 (Core) capital	
Common share capital	P593,384,400
Appropriated surplus	385,223,770
Surplus free	24,617,867
Less:	
Unsecured credit accommodations to DOSRI, net of allowance	(16,150,000)
Deferred tax assets, net (Note 30)	(21,822,341)
Goodwill (Note 19)	(43,700,799)
Total Tier 1 capital	921,552,897
Tier 2 (Supplementary) capital	
Preferred stock	40,000,000
General loan loss provision	32,985,946
Unsecured subordinated debt (Note 26)	117,600,000
Less:	
Sinking fund (Note 18)	(42,698,131)
Investment in a subsidiary (Note 14)	(38,049,190)
Total Tier 2 capital	109,838,625
Total qualifying capital	P1,031,391,522
Risk weighted assets	P5,119,362,000
CAR	20.15%

Implementation of Basel 1.5

Stand-alone thrift banks, rural banks and cooperative banks are covered by a separate risk-based capital adequacy framework referred to by the BSP as the Basel 1.5 framework which is a simplified version of Basel II in view of the simple operations of these covered banks. The implementing guidelines of Basel 1.5 are contained in Circular Nos. 688 and 740 dated May 26, 2010 and November 16, 2011, respectively, which took effect on January 1, 2012. Consequently, the new risk-based capital adequacy framework is used to compute the 2012 CAR.

The Bank has exceeded the minimum risk-based capital adequacy ratio, expressed as a percentage of qualifying capital to risk-weighted assets, of not less than ten percent (10%) as required by the BSP.

The Bank's aforesaid qualifying capital as of December 31, 2012 is higher than its paid-up capital as stated in its articles of incorporation. Details of the Bank's share capital are presented in Note 27.

The Bank has complied with all externally imposed capital requirements throughout the period.

NOTE 6 - FINANCIAL INSTRUMENTS

The following table summarizes the carrying amounts and fair values of the financial assets and financial liabilities of the Bank at December 31, 2012:

	Carrying value	Fair value
Financial assets		
Cash and other cash items	P179,000,272	P179,000,272
Due from BSP	144,058,438	144,058,438
Due from other banks	658,913,405	658,913,405
Loans and receivables, net	5,006,131,477	5,006,131,477
AFS investments	817,903,024	817,903,024
HTM investments	20,000,000	23,034,837
Sinking fund	42,645,973	42,645,973
Other resources - security deposits	4,319,853	4,319,853
	P6,872,972,442	P6,876,007,279
Financial liabilities		
Deposit liabilities	P3,195,460,506	P3,195,460,506
Accrued interest, taxes and other payables	42,168,642	42,168,642
Bills payable	2,794,828,212	2,794,828,212
Redeemable preferred shares	40,000,000	40,000,000
Unsecured subordinated debt	120,000,000	120,000,000
Other liabilities	445,059,535	445,059,535
	P6,637,516,895	P6,637,516,895

Fair value of financial instruments

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

Cash and other cash items, Due from BSP and other banks, and sinking fund - carrying amounts approximate fair values due to their short-term nature.

Loans and receivables, deposit liabilities and bills payable - fair values approximate carrying values because the impact of discounting cash flows, applying the rates currently offered by other financial institutions for placing with other similar characteristics/current incremental borrowing rates for similar types of deposits is not significant.

AFS and HTM investments - fair values are generally based on quoted market prices. Where the debt securities are not quoted or the market prices are not readily available, the Bank obtained valuations from independent parties offering pricing services, used adjusted quoted market prices of comparable investments, or applied discounted cash flow methodologies.

Accrued interest, taxes and other payables, and other liabilities' carrying amounts approximate fair values due to the short-term maturities of the accounts.

Unsecured subordinated debt and redeemable preferred shares - carrying value approximates fair value. The unsecured subordinated debt is callable with step-up interest rates after 5 years from issue date in 2007.

Fair value hierarchy

The following table presents financial instruments measured at fair value and classified by level of the following fair value measurement hierarchy at December 31, 2012:

- *Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities*
- *Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)*
- *Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)*

Financial asset	Level 1	Level 2	Level 3
AFS investments	P817,903,024	P-	P-

There have been no transfers from Level 1 to Levels 2 and 3 for the three-month period ended December 31, 2012.

NOTE 7 - CASH AND OTHER CASH ITEMS

The account at December 31, 2012 consists of:

Cash on hand	P57,265,853
Checks and other cash items	121,734,419
	P179,000,272

NOTE 8 - DUE FROM BANGKO SENTRAL NG PILIPINAS

The account consists of the Bank's deposit maintained with the BSP and reserve requirements against deposit liabilities.

The account serves also as the Bank's clearing account for its check clearing operations as a member of the Philippine Clearing House Corporation (PCHC).

The BSP approved for the Bank a rediscounting line in the amount of P1,391,000,000 equivalent to 150% of the adjusted net worth of the newly consolidated thrift bank as of October 31, 2012 as validated by the Supervisory Data Center of the BSP. The rediscounting line shall expire on October 12, 2013.

The BSP also approved a Clean Overdraft Credit Line (Clean OCL) in the amount of P208,650,000 in November 2012 equivalent to 15% of the approved rediscounting line to cover any overdraft that may be incurred by the Bank due to losses in the check clearing processes conducted by the PCHC.

The balance of the account as at December 31, 2012 amounted to P144,058,438 bearing interest rates ranging from 0% to 3.53%. Deposits maintained by the Bank in compliance with the reserve requirement is no longer paid interest upon the effectivity of BSP Circular No. 753 dated March 29, 2012. Interest income amounted to P60,756 for the three-month period ended December 31, 2012.

NOTE 9 - DUE FROM OTHER BANKS

This pertains to funds and other deposits maintained with other local banks, primarily to facilitate check or draft or other similar payment order collections and other banking services.

The account at December 31, 2012 consists of:

Demand deposits	**P510,842,642**
Savings deposits	**126,087,407**
Short-term placements	**21,983,356**
	P658,913,405

Short-term placements are made for various periods between one day and three months depending on the immediate cash requirements of the Bank. The balance at December 31, 2012 earns interest at rates ranging from 0.25% to 2.5%.

Due from other banks earn interest at the prevailing bank deposit rates. Interest income amounted to P559,327 for the three-month period ended December 31, 2012.

NOTE 10 - LOANS AND RECEIVABLES

The details of the account at December 31, 2012 follow:

Loans	
Small and medium-sized entities	P2,294,483,779
Agrarian reform	1,393,625,615
Reverse repurchase agreements	868,000,000
Salary	122,944,731
Loans to individuals for other purposes	111,337,321
Housing	75,062,653
Auto	46,675,125
	4,912,129,224
Accrued interest receivable (Note 33)	68,423,953
Sales contract receivable (Note 33)	21,256,807
Accounts receivable	72,125,179
	5,073,935,163
Allowance for probable losses (Note 11)	(67,803,686)
	P5,006,131,477

Loans and receivables amounting to P3,105,364,680 as at December 31, 2012 are pledged as collateral to the Land Bank of the Philippines (LBP), BSP, and other financial institutions to secure the loans obtained by the Bank under rediscounting privileges amounting to P2,794,828,212 as at December 31, 2012 (see Note 24).

Interest earned on loans and receivables amounted to P154,114,536 for the thee-month period ended December 31, 2012.

Reverse repurchase agreements are loans granted to the BSP under an overnight lending agreement carrying an interest of 3.5% as of December 31, 2012. Interest earned, included in interest income on loans and receivables, amounted to P1,347,972 for the three-month period ended December 31, 2012.

Sales contract receivable refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said properties is transferred to the buyers only upon full payment of the agreed selling price. Interest earned on sales contract receivable, included in interest income on loans and receivables, amounted to P467,370 for the three-month period ended December 31, 2012 (see Note 33).

BSP reporting

The major classification of loans at December 31, 2012 is as follows:

(a) As to security

Secured	
Real estate mortgage	P3,763,172,047
Chattel mortgage	46,675,125
Others	941,818,975
	4,751,666,147
Unsecured	160,463,077
	P4,912,129,224

Loans, which are secured by real property mortgage, have terms ranging from less than one year to five years and with interest rates ranging from 6.25% to 18% as of December 31, 2012.

Loan availments from credit lines, which are secured by mortgages on motor vehicles, have terms of not more than a year and with interest rates ranging from 12% to 24% as of December 31, 2012.

Loans, which are secured by other types of securities which include, among others, hold-out deposits and government guarantee loans, which have terms ranging from one month to more than five years and with interest rates ranging from 5.75% to 14% as of December 31, 2012.

Unsecured loans are guaranteed by co-makers, who in the event of default will assume the loan balance. These loans have terms of less than one year and with interest rates ranging from 13.5% to 24% as of December 31, 2012.

(b) As to concentration of credit

The BSP considers that concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio.

The Bank analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. To mitigate risk concentration, the Bank constantly checks for breaches in regulatory and internal limits.

See Note 4 for the disclosure on concentration of credit as to industry as at December 31, 2012.

(c) As to maturity

Current banking regulations allow banks with no unbooked valuation reserves and capital adjustments to exclude from non-performing classification those loans to customers classified as "Loss" in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said loans shall not be accrued.

The non-performing loans (NPLs) (over 30 days past due) of the Bank, net of accounts in the "Loss" category amounted to P150,342,450 as at December 31, 2012 representing approximately 3% of the total loan portfolio. NPLs fully covered by allowance for probable losses amounted to P33,779,389 as at December 31, 2012. Under banking regulations, NPLs shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for thirty (30) days or more after due date, or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

In the case of loans that are payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three (3) or more installments are in arrears. In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the loan shall be considered as past due when the total amount of arrearages reaches 10% of the total loan balance. Restructured loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs.

The aggregate fair values of the collateral held for non-performing accounts of the Bank amounted to P114,328,601 as at December 31, 2012.

Generally, the loans as at December 31, 2012 carry effective interest rates as follows:

Maturing in:	
One year	5.75% to 24%
Two to five years	14% to 24%
More than five years	14% to 18%

See Note 4 for the disclosure on maturity profile of loans and receivables as at December 31, 2012.

NOTE 11 - ALLOWANCE FOR PROBABLE LOSSES

A reconciliation of the allowance for probable losses at December 31, 2012 is as follows:

Balance, beginning	P-
Allowance assumed from consolidation	74,585,985
Provision charged to operations	5,244,510
Accounts written off	(12,026,809)
Balance, ending	P67,803,686

In December 2012, the BOD of the Bank approved the write-offs of certain loan accounts totaling P12,026,809 in accordance with the rules and regulations of the BSP. The notice of write-off was reported to the BSP on January 7, 2013.

Allowance for probable losses is comprised of the following:

Specific loan loss	
Loans to individuals for other purposes	P27,514,921
Small and medium-sized entities	3,944,921
Agrarian reform	1,228,966
Salary	882,319
Auto loans	118,783
Housing	89,478
Other receivables	1,038,352
	34,817,740
General loan loss	32,985,946
	P67,803,686

Gross amounts of loans individually determined to be impaired as at December 31, 2012 follow:

Loans	
Small and medium-sized entities	P9,682,524
Agrarian reform	4,779,898
Salary	1,729,712
Loans to individuals for other purposes	666,009
Total	P16,858,143

With the foregoing level of allowance for probable losses, management believes that the Bank has sufficient allowance to manage any risk from non-collection or non-realization of the Bank's loans and receivables.

NOTE 12 - AVAILABLE-FOR-SALE INVESTMENTS

The Bank's AFS investments pertain to government securities that are held by the Bureau of the Treasury under the Registry of Scripless Securities (RoSS) system and are traded in an active market.

The changes in the Bank's AFS investments at December 31, 2012 are as follows:

Balance, beginning	P-
Assets acquired from consolidation	173,290,465
Additions (Note 23)	632,634,723
Disposals	-
Fair value adjustment	11,977,836
Balance, ending	P817,903,024

AFS investments as at December 31, 2012 earn interest at annual rates ranging from 5.615% to 6.25%. Interest income for the three-month period ended December 31, 2012 amounted to P2,884,776.

The movements in net unrealized gain on AFS investments at December 31, 2012 follow:

Balance, beginning	P-
Unrealized gain recognized in other comprehensive income, net of tax	9,582,269
Balance, ending	P9,582,269

The Bank assesses at each reporting date whether there is an indication that an investment may be impaired and believes that there are no indications of impairment as of the financial reporting date.

NOTE 13 - HELD-TO-MATURITY INVESTMENTS

The account represents unsecured subordinated note eligible as lower tier 2 capital purchased by the Bank from LBP on June 8, 2009. The investment carries an interest rate of 7.25% and will mature on June 9, 2019.

The movements in the account are as follows:

Balance, beginning	P-
Assets acquired from consolidation	20,000,000
Additions	-
Disposals	-
Balance, ending	P20,000,000

Interest income earned from the Bank' HTM investment for the three-month period ended December 31, 2012 amounted to P289,000.

The fair value of the investment as at December 31, 2012 amounted to P23,034,837, which was determined at the net present value of estimated future cash flows discounted at current market rate.

NOTE 14 - INVESTMENT IN A SUBSIDIARY

The account represents the Bank's investment in ICDBank. It owns close to 49% of the issued and outstanding common shares of ICDBank, a 50-year-old thrift bank with eight branches based in Iloilo City. In December 2008, Producers Bank acquired close to 49% of the issued and outstanding common shares of ICDBank and in 2009, the MB of the BSP approved the investment of Producers Bank in ICDBank up to 49% of the latter's voting stock.

At December 31, 2011, the management of Producers Bank determined the existence of its significant control over the investee's or ICDBank's operations when the BSP approved on May 30, 2011 the interlocking directorships/officerships of five (5) directors/officers of the Bank and ICDBank, namely: Mr. Andres M. Cornejo, Mr. Edmundo C. Medrano, Dr. Alejandrino J. Ferreria, Mr. Amador N. Llona and Atty. Arthur R. Ponsaran, who together with Mr. Andrei D. Cornejo, ICDBank President (all nominees of the Bank), constituted a majority in the ICDBank BOD.

The cost of investment transferred to the consolidated bank amounted to P38,049,190.

NOTE 15 - BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The details of and movements in the account as of December 31, 2012 follow:

	Bank premises, furniture and fixtures	Transportation equipment	Leasehold improvements	Total
Cost				
At October 1, 2012	P-	P-	P-	P-
Assets acquired from consolidation	123,300,044	16,319,275	78,361,462	217,980,781
Additions	6,553,931	8,191,141	4,948,116	19,693,188
Disposals	-	-	-	-
At December 31, 2012	129,853,975	24,510,416	83,309,578	237,673,969
Accumulated depreciation and amortization				
At October 1, 2012	-	-	-	-
Depreciation and amortization (Note 29)	4,223,110	1,975,083	3,211,086	9,409,279
Disposals	-	-	-	-
At December 31, 2012	4,223,110	1,975,083	3,211,086	9,409,279
Net book value				
At December 31, 2012	**P125,630,865**	**P22,535,333**	**P80,098,492**	**P228,264,690**

As part of the consolidation incentives discussed in Note 1, the Bank was allowed by the BSP to revalue the bank premises acquired from Producers Bank and NRBV resulting in recognition of additional P50,532,000, which was recorded as part of the additional paid-in capital of PSBC.

The Bank assesses at each reporting date whether there is an indication that an item of bank premises, furniture, fixtures and equipment may be impaired and believes that there are no indications of impairment as of the financial reporting date.

Under BSP rules, investment in bank premises, furniture, fixtures and equipment should not exceed 50% of the Bank's unimpaired capital. As of December 31, 2012, the Bank has satisfactorily complied with this BSP requirement.

NOTE 16 - INVESTMENT PROPERTIES

The details of and movements in the account as of December 31, 2012 are as follows:

	Land	Building	Total
Cost			
At October 1, 2012	P-	P-	P-
Assets acquired from consolidation	228,326,849	48,672,275	276,999,124
Foreclosures	50,573,831		50,573,831
Disposals	(4,011,120)	-	(4,011,120)
At December 31, 2012	274,889,560	48,672,275	323,561,835
Accumulated depreciation			
At October 1, 2012	-	-	-
Depreciation (Note 29)	-	1,418,530	1,418,530
Disposals	-	-	-
At December 31, 2012	-	1,418,530	1,418,530
Net book value			
At December 31, 2012	P274,889,560	P47,253,745	P322,143,305

The aggregate fair value of investment properties of the Bank amounted to P362,638,779 as of December 31, 2012. The fair values of the Bank's investment properties have been determined by BSP accredited appraisers or in-house appraisers on the basis of recent sales of similar property in the same area as the investment property and taking into account the economic conditions prevailing at the time the valuations were made. In compliance with pertinent BSP rules, the appraisal of an individual real estate property with a carrying amount of loan of more than P5,000,000 was conducted by an independent appraiser acceptable to the BSP.

The Bank recognized gains of P304,569 from the disposal of investment properties for the three-month period ended December 31, 2012 (see Note 28).

NOTE 17 - ASSETS HELD FOR SALE

The movement in the account follows:

	December 31, 2012
At October 1, 2012	P-
Assets acquired from consolidation	83,230,633
At December 31, 2012	P83,230,633

Assets held for sale consist of various lots and buildings which management believes can be sold within 12 months after the financial statement date or with interested or potential buyers.

The fair value of these asset s amounted to P100,559,272 as of December 31, 2012.

NOTE 18 - SINKING FUND

In 2007, the Bank placed with LBP Trust Banking Group two (2) sinking fund accounts equivalent to the present value of the Bank's liability for the redemption of its issued Preferred "A" and Preferred "B" shares of stock. These amounted to P42,645,973 as at December 31, 2012. Interest earned amounted to P430,458 for the three-month period ended December 31, 2012.

NOTE 19 - INTANGIBLE ASSETS

The composition of and movements in the account as of December 31, 2012 follow:

	Software	Goodwill	Total
At October 1, 2012	P-	P-	P-
Assets acquired from consolidation	50,261,972	27,087,803	77,349,775
Additions	935,420	16,612,996	17,548,416
At December 31, 2012	P51,197,392	P43,700,799	P94,898,191

Software

The software license pertains to the computer software acquired from the consolidation of Producers Bank and NRBV. The ICBA system purchased from Infopro Systems International (Infopro), Inc. that the Bank obtained is a system that has real time, online computing capability. It is a browser-based system deployed using the latest Oracle application servers and Oracle database servers running on Linux operating system. A browser-based system allows authorized users to access the system from anywhere, anytime through the internet. The new state-of-the-art computer system was identified as a potent tool for risk management, to achieve more efficient processes and reporting, to save on costs in the long run and to provide a wider range of value-adding service to its present and future customers. The software and services agreement executed by and between the Producers Bank and Infopro stipulates that updates or revised editions of the ICBA products shall be supplied by the contractor at no cost to the Bank provided that the Bank continues to subscribe to maintenance service from Infopro.

The Bank assesses at each reporting date whether there is an indication that the software is impaired and believes that there are no indications of impairment as of the financial reporting date.

Goodwill

The goodwill acquired from the consolidation represents the excess of the acquisition cost over the fair market value of the net identifiable assets, liabilities and contingent liabilities acquired in connection with the acquisition by Producers Bank of Rural Bank of Rosales (Pangasinan), Inc. (RosBank) in 2004. As of the date of the acquisition, goodwill was recorded and recognized as an asset in the statement of condition. The consolidation of NRBV into PSBC resulted also in recognition of goodwill of P16,612,996 as one of the consolidation incentives as approved by the BSP (see Note 1).

The Bank assesses at each reporting date whether there is an indication that the goodwill is impaired and believes that there are no indications of impairment as of the financial reporting date for the acquired branches from Rosbank (Rosales, Tayug, Urdaneta City, Villasis, and Binalonan in Pangasinan, Baguio City and La Trinidad in Cordillera Autonomous Region, Dau and San Fernando City in Pampanga, Calabanga in Camarines Sur and Legaspi City in Albay) as well as the branches that were opened because of the merger incentives (Sta. Barbara, Baler, Bambang, San Ildefonso, Plaridel, Santiago City, Iba and in Ortigas Center, Pasig City). They continuously deliver deposits, loans and profits for the Bank, thus contributing to the success of the Bank.

Similarly, the Bank assesses at each reporting date whether there is an indication that the goodwill is impaired and believes that there are no indications of impairment as of the financial reporting date for the acquired branches from NRBV (Bacolod City, Victorias City, San Carlos City, Kabankalan City, Bago City and the OBO in Escalante City, all in the province of Negros Occidental). They continuously deliver deposits, loans and profits for the Bank, thus contributing to the success of the Bank.

NOTE 20 - OTHER RESOURCES

The details of the account at December 31, 2012 are as follows:

Security deposits (Note 32)	P4,319,853
Stationery and supplies on hand	2,775,752
Dividends receivable	1,999,950
Prepayments	709,228
Petty cash fund	304,500
Miscellaneous assets	11,703,437
	P21,812,720

Prepayments include prepaid insurance, rent and taxes.

Miscellaneous assets include non-refundable membership fees paid in 2010 to PCHC and Chamber of Thrift Banks which amounted to P9,789,572. PCHC provides, maintains and renders check clearing service to the participating banks. The Chamber of Thrift Banks is an institutional medium through which members assist one another in promoting and strengthening the role of thrift banks in the development of the country by sharing technologies, information and training among the member banks.

NOTE 21 - DEPOSIT LIABILITIES

In March 2012, the BSP approved a unification of the statutory, legal and liquidity reserve requirement and reduction in the unified reserve requirement ratios. Effective April 6, 2012, the rate of required reserves against demand, savings and time deposits for thrift banks is at 6%. The Bank is in compliance with such regulations as of December 31, 2012.

The required and available reserves as reported to the BSP follow:

Total reserves	
Due from BSP	P140,014,860
Required reserves	P130,287,376

BSP Circular No. 753 provides that the required reserves shall be kept in the form of deposits placed in banks' demand deposit accounts with the BSP. Based on the transitory provisions in the circular, banks' existing cash in vault shall be eligible as compliance with the reserve requirement until the effectivity of the circular. Henceforth, such mode of compliance shall no longer be allowed.

See Note 4 for the maturity profile of deposit liabilities as at December 31, 2012.

Deposit liabilities earn interest at annual rates ranging from 2.5% to 5% as of December 31, 2012.

Interest expense on deposit liabilities for the three-month period ended December 31, 2012 follows:

Savings	P11,107,383
Time	1,185,574
	P12,292,957

The demand deposits of the Bank are non-interest bearing.

NOTE 22 - ACCRUED INTEREST, TAXES AND OTHER PAYABLES

The details of the account at December 31, 2012 follow:

Accrued interest payable (Notes 21, 24 and 26)	P23,429,190
Manager's check payable	12,837,497
Accrued taxes and license payable	7,689,190
Software maintenance cost	4,005,979
Other accrued expenses	1,895,976
	P49,857,832

Other accrued expenses include retirement liability of P200,000.

NOTE 23 - OTHER LIABILITIES

The account at December 31, 2012 consists of:

Insurance	P4,753,413
Documentary stamp tax	2,821,926
Withholding tax	2,291,591
SSS and Medicare benefits	1,236,011
Gross receipts tax	383,543
Overages	33,990
Others	440,272,132
	P451,792,606

Other liabilities include the liability of the Bank to First Metro Investment Corporation for purchasing a P400,000,000-face value Retail Treasury bond amounting to P428,034,800 on December 28, 2012 (see Note 12). This investment was settled on January 2, 2013.

NOTE 24 - BILLS PAYABLE

The account at December 31, 2012 consists of:

Government financial institutions	P2,696,200,545
BSP	44,712,800
Other financial intermediaries	53,914,867
	P2,794,828,212

The movements in the account are as follows:

Balance, beginning	P-
Liabilities assumed from consolidation	1,335,183,192
Rediscounts	2,815,818,565
Settlements	(1,356,173,545)
Balance, ending	P2,794,828,212

Bills payable represents loans rediscounted at average annual interest rates of 3.5% to 6.3% as of December 31, 2012. Loans amounting to P3,105,364,680 as at December 31, 2012 have been pledged as collateral for said obligations (see Note 10). Interest paid amounted to P17,535,756 for the three-month period ended December 31, 2012. Interest expense on bills payable for the three-month period ended December 31, 2012 amounted to P20,765,380.

See Note 4 for the maturity profile of bills payable as at December 31, 2012.

NOTE 25 - REDEEMABLE PREFERRED SHARES

The composition of the account at December 31, 2012 follows:

Redeemable preferred shares - P10 par value	
Authorized:	
Preferred A - 15,000,000 shares	P150,000,000
Preferred B - 35,000,000 shares	350,000,000
	P500,000,000
Issued and outstanding:	
Preferred A - 1,000,000 shares	P10,000,000
Preferred B - 3,000,000 shares	30,000,000
	P40,000,000

The liability for the redeemable preferred shares was assumed from the consolidation.

As stated in Producers Bank's Articles of Incorporation, preferred shares shall have preference over common shares in the assets of the Bank in the event of liquidation. The preferred shares shall consist of (a) preferred-series "A" share consisting of 15,000,000 shares and (b) preferred-series "B" share consisting of 35,000,000 shares. The preferred-series "A" shares have all been issued to LBP.

Preferred-series "A" shares

Preferred series "A" shares which shall be issued to the LBP shall have the following rights, preferences, qualifications and limitations, all of which shall be incorporated in the certificates of stock evidencing the preferred shares:

Dividend rights and restrictions. The holders of the preferred-series "A" shares shall be entitled to receive as and when declared by the BOD an annual cumulative preferential dividend, payable commencing at the end of the year following issue date and at the end of each year thereafter (the "Dividend Payment Date") at a rate equivalent to the average 364-day Treasury Bill based on the latest weekly auction prior to the release of the equity or anniversary date plus one percent (1%) per annum.

Dividends accrued and unpaid, if any, on the preferred-series "A" shares shall be cumulative and no cash dividends shall be declared and paid to holders of common stock until after such accumulated, accrued and unpaid dividends on the preferred-series "A" shares shall have been paid or provision thereof made; Provided, that in no case shall dividends be paid on the preferred-series "A" shares in the absence of sufficient undivided profits, free surplus and without the approval of the BSP."

Redemption. The corporation shall be obligated to redeem any and all preferred-series "A" shares outstanding at the end of five (5) years from date of issue of such preferred stock (the "Redemption Date") at a price (the "Redemption Price") equal to the par value thereof together with all accrued and unpaid dividends thereon: Provided that: (a) redemption shall be allowed only upon prior approval of the BSP and only if the shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption, and (b) such redemption may not be made where the corporation is insolvent or if such redemption will cause insolvency, impairment of capital or inability of the corporation to meet its debts as they mature.

Sinking fund/Other conditions. A sinking fund for the redemption of the preferred-series "A" shares shall be created upon the issuance thereof, to be effected by the transfer of free surplus to a restricted surplus account, which sinking fund shall not be available for dividends and without prior approval of the BSP. The preferred-series "A" shares shall be issued upon the further condition that the corporation shall not treat in any way the redeemable preferred stock as time deposit, deposit substitute or other forms of borrowing.

Voting rights. The preferred-series "A" shares shall not have the right to vote, except only on matters where non-voting shares are expressly given the right to vote pursuant to the provisions of the Corporation Code.

Preference in liquidation. In the event of liquidation, dissolution or winding up of the corporation (whether voluntary or involuntary), the holders of preferred-series "A" shares shall be entitled to receive out of the net assets of the corporation available for distribution to its stockholders and after satisfying all creditors, whether from capital or earnings, an amount equal to the par value of the preferred-series "A" shares, plus accrued and unpaid dividends if any, before any distribution of the assets of the corporation may be made to holders of common stock. The holders of preferred-series "A" shares shall be entitled to no other or further distribution, and any assets remaining after such distribution shall be distributed exclusively to holders of common stock.

Ranking. No amendment of the terms and conditions of issuance of the preferred-series "A" shares may be made without the affirmative vote of a majority of the holders of the preferred-series "A" shares.

Reissuance of preferred-series "A" share redeemed. All shares of preferred-series "A" redeemed may be reissued, at the option of the BOD, whether as common or preferred shares and of whatever class or series and with such features and under such terms as the BOD shall determine.

Convertibility. No convertibility to common shares upon maturity of the investment.

Other terms. The BOD of the corporation may provide for such other terms and conditions for the issuance of the preferred-series "A" share, as may be consistent with the foregoing provisions.

Preferred-series "B" shares

Preferred series "B" shares shall have the following rights, preferences, qualifications and limitations, all of which shall be incorporated in the certificates of stock evidencing the preferred shares:

Dividend rights and restrictions. The holders of the preferred-series "B" shares shall be entitled to receive as and when declared by the BOD, a quarterly cumulative preferential dividend, payable commencing ninety (90) days after issue date and at the end of the calendar quarter thereafter (the "Dividend Payment Date") at a rate equivalent to the average 91-day Treasury Bill rate for the last two weekly auctions preceding the immediately preceding Dividend Payment Date plus a premium equivalent to two percent (2%) per annum. Dividends accrued and unpaid, if any, on the preferred-series "B" shares shall be cumulative and no cash dividends shall be declared and paid to holders of common stock until after such accumulated, accrued and unpaid dividends on the preferred-series "B" shares shall have been paid or provision thereof made; Provided, that in no case shall dividends be paid on the preferred-series "B" shares in the absence of sufficient undivided profits, free surplus and without the approval of the BSP.

Redemption. The corporation shall be obligated to redeem any and all preferred-series "B" shares outstanding at the end of five (5) years from date of issue of such preferred stock (the "Redemption Date") at a price (the "Redemption Price") equal to the par value thereof together with all accrued and unpaid dividends thereon: Provided that: (a) redemption shall be allowed only upon prior approval of the BSP and only if the shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption, and (b) such redemption may not be made where the corporation is insolvent or if such redemption will cause insolvency, impairment of capital or inability of the corporation to meet its debts as they mature.

Sinking fund/Other conditions. A sinking fund for the redemption of the preferred-series "B" shares shall be created upon the issuance thereof, to be effected by the transfer of free surplus to a restricted surplus account, which sinking fund shall not be available for dividends and without prior approval of the BSP. The preferred-series "B" shares shall be issued upon the further condition that the corporation shall not treat in any way the redeemable preferred stock as time deposit, deposit substitute or other forms of borrowing.

Voting rights. The preferred-series "B" shares shall not have the right to vote, except only on matters where non-voting shares are expressly given the right to vote pursuant to the provisions of the Corporation Code.

Preference in liquidation. In the event of liquidation, dissolution or winding up of the corporation (whether voluntary or involuntary), the holders of preferred-series "B" shares shall be entitled to receive out of the net assets of the corporation available for distribution to its stockholders and after satisfying all creditors, whether from capital or earnings, an amount equal to the par value of the preferred-series "B" shares, plus accrued and unpaid dividends if any, before any distribution of the assets of the corporation may be made to holders of common stock. The holders of preferred-series "B" shares shall be entitled to no other or further distribution, and any assets remaining after such distribution shall be distributed exclusively to holders of common stock.

Ranking. No amendment of the terms and conditions of issuance of the preferred-series "B" shares may be made without the affirmative vote of a majority of the holders of the preferred-series "B" shares.

Reissuance of preferred-series "B" shares redeemed. All shares of preferred-series "B" shares redeemed may be reissued, at the option of the BOD, whether as common or preferred shares and of whatever class or series and with such features and under such terms as the BOD shall determine.

Convertibility. No convertibility to common shares upon maturity of the investment.

Other Terms. The BOD of the corporation may provide for such other terms and conditions for the issuance of the preferred-series "B" shares, as may be consistent with the foregoing provisions.

NOTE 26 - UNSECURED SUBORDINATED DEBT

The liability for the unsecured subordinated debt was assumed from the consolidation.

On March 27, 2007, the BOD of Producers Bank approved the raising of Lower Tier 2 capital through the exclusive issuance to LBP of unsecured subordinated debt up to P120,000,000 maturing in 10 years but callable with step-up interest rates after 5 years from issue date.

The issuance of the unsecured subordinated bond under the terms approved by the BOD of Producers Bank was approved by the BSP on November 8, 2007, subject to the compliance of Producers Bank with certain conditions.

On December 20, 2007, Producers Bank issued Unsecured Subordinated Notes (UnSD or the "Notes") which are due in 2017 and with annual interest rate of 9.1192% payable semi-annually in arrears reckoned from the date of release of the UnSD proceeds.

Subject to certain regulatory approval requirements, the Bank may, on December 20, 2012, redeem all and not less than all of the outstanding Notes, at a redemption price equal to the issue price of the Notes together with accrued and unpaid interest based on the interest rate thereon.

On November 23, 2012, the Bank sought formal BSP and MB approval to exercise its call option on the aforementioned UnSD preferably on December 20, 2012 with a replacement for P450,000,000 worth of UnSD.

The Notes will constitute direct, unconditional, unsecured and subordinated obligation of the Bank, and will, at all times, rank at an equal rate without preference among themselves, and at least equally with all other present and future unsecured and subordinated obligation of the Bank. However, claims of 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 offset any amount that may be due to the Bank against the Notes.

Other terms and conditions related to the Notes are: (1) it is subordinated to the claims of depositors and ordinary creditors; (2) it shall not be treated as a deposit; (3) it is neither guaranteed nor insured by the Bank or any party related to the Bank, such as its affiliates, or the PDIC, or any other person; and (4) it shall not be used as collateral for any loan made by the Bank.

The BOD of the LBP approved in December 2012 another subscription to PSBC's issuance of UnSD in the amount of P450,000,000.

The MB of the BSP, in its Resolution No. 159 dated January 25, 2013, approved the Bank's request to pre-terminate its outstanding P120,000,000 UnSD with original maturity of December 20, 2017, and on February 11, 2013, PSBC fully prepaid its P120,000,000 UnSD.

As of December 31, 2012, the Bank is in compliance with the terms and conditions upon which the Notes have been issued with total interest expense amounting to P2,786,510 for the three-month period ended December 31, 2012.

NOTE 27 - SHARE CAPITAL

The details of the Bank's share capital as at December 31, 2012 are as follows:

	Amount	Number of Shares
Authorized at P10 par value		
Common shares	P1,500,000,000	150,000,000
Preferred shares	P500,000,000	50,000,000
Issued and outstanding		
Common shares	P593,384,400	59,338,440
Preferred shares (Note 25)	P40,000,000	4,000,000

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "Unimpaired Capital" as reported to the BSP, which is determined on the basis of regulatory accounting policies that differ from PFRS in some respects. As disclosed in Note 5, the minimum capital required for thrift banks with head office in Metro Manila is P325,000,000. The Bank's qualifying capital as of December 31, 2012 is higher than the BSP's required minimum capital and its paid-up capital. The details of the Bank's qualifying capital as reported to the BSP are shown in Note 5.

The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than 10%. Capital adequacy reports are to be filed by the Bank with the BSP every quarter. The risk-based capital ratio of the Bank is disclosed in Note 5.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain other adjustments.

NOTE 28 - OTHER OPERATING INCOME

Details of the account for the three-month period ended December 31, 2012 follow:

Bank commissions	P18,318,508
Service fees	12,913,876
Dividend income	1,999,950
Realized gain on sale of investment properties (Note 16)	304,569
Miscellaneous income	5,046,825
	P38,583,728

Miscellaneous income includes penalties collected on past due accounts, bank lending commissions, appraisal fees, bank service charges on printing of checks, bank charges on dormant accounts, and service charges on Overseas Filipino Workers' remittances, etc.

NOTE 29 - OTHER OPERATING EXPENSES

Details of the account for the three-month period ended December 31, 2012 follow:

Salaries and other employee benefits	P40,070,710
Transportation and travel	11,398,578
Depreciation and amortization (Notes 15 and 16)	10,827,809
Documentary stamp tax	10,313,675
Repairs and maintenance	8,391,504
Rent (Note 32)	8,008,521
Communication, light and power	6,445,128
Retirement benefits (Note 31)	5,192,262
Insurance	4,319,389
Stationery and supplies	3,791,371
Litigation and asset acquired expenses	2,809,245
Security, janitorial and other services	2,655,362
Taxes and licenses	1,507,949
Representation and entertainment	1,455,643
Management and other professional fees	722,249
Other expenses	7,994,202
	P125,903,597

Details of other expenses follow:

Membership fees and dues	P352,783
Advertising	87,871
Periodicals and magazines	55,776
Donations and charitable contributions	25,066
Fines, penalties and charges	13,425
Miscellaneous expenses	7,459,281
	P7,994,202

NOTE 30 - INCOME TAXES

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as "taxes and licenses" under other operating expenses in the statement of comprehensive income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp taxes. Income taxes include corporate income tax and 20% final taxes paid, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. The regular corporate income tax (RCIT) rate is reduced from 35% to 30% effective January 1, 2009 pursuant to RA No. 9337, *An Act Amending the National International Revenue Code*. Interest allowed as a deductible expense is reduced by an amount equivalent to 33% of interest income subject to final tax.

Effective July 2008, RA No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction equivalent to 40% of gross income. Once the option is made, it shall be irrevocable for the taxable year for which the option was made. The Bank opted to claim itemized deduction for the three-month period ended December 31, 2012.

Current tax regulations also provide for the ceiling on the amount of Entertainment, Amusement and Recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1% of net revenue.

The regulations also provide for MCIT of 2% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, for the three immediately succeeding taxable years.

A MCIT of two percent (2%) of the gross income as of the end of the taxable year is imposed upon any domestic corporation beginning the fourth (4th) taxable year immediately following the taxable year in which such corporation commenced its business operations. The MCIT shall be imposed whenever such corporation has zero or negative taxable income or whenever the amount of MCIT is greater than the normal income tax due from such corporation.

The components of the Bank's deferred income tax at December 31, 2012 are as follows:

	Assets	Liabilities	Net
Allowance for probable losses on loans and receivables	P21,432,847	P-	P21,432,847
NOLCO	746,804	-	746,804
Excess of actual retirement contribution over retirement expense	-	2,981,070	(2,981,070)
Net unrealized gain on AFS investments	-	2,477,926	(2,477,926)
MCIT	643,056	-	643,056
	P22,822,707	P5,458,996	P17,363,711

Movements in deferred income tax are recognized as follows:

Balance, beginning	
Assets acquired from consolidation	P26,897,883
Charged to profit or loss	(7,138,605)
Charged to equity	(2,395,567)
Balance, ending	P17,363,711

Details of NOLCO and MCIT acquired by the Bank from NRBV are as follows:

Year incurred	Amount	Utilized	Balance	Expiry year
NOLCO				
December 2010	P7,529,703	(P7,529,703)	P-	2013
December 2011	4,778,293	(3,529,394)	1,248,899	2014
September 2012	1,240,449	-	1,240,449	2015
MCIT				
December 2010	436,262	-	436,262	2013
December 2011	112,854	-	112,854	2014
September 2012	93,940	-	93,940	2015

The Bank is not yet subject to MCIT since it has just commenced its business operations on October 12, 2012.

The reconciliation between the provision for income tax computed at the statutory income tax rate and the actual income tax expense is shown below:

Income before income tax	P29,929,627
Income tax expense at statutory tax rate of 30%	P8,978,888
Additions to (reductions in) income tax due to the following:	
Non-deductible interest expense	522,759
Profit on asset sold subject to final tax	(91,370)
Dividend income	(599,985)
Interest on deposits and investments subject to final tax	(1,671,687)
	P7,138,605

NOTE 31 - RETIREMENT BENEFIT COST

The Bank has a partially funded, non-contributory defined benefit retirement plan covering substantially all of its employees. The actuarial present value of the retirement benefit liability under the plan is measured in terms of actuarial assumptions of mortality, investment yield and salary increase rates.

An SEC-accredited actuary computed the present value of liability using the projected unit credit method. The overall expected rate of return of plan asset is determined based on the market prices prevailing on that date, applicable to the period over which the liability is expected to be settled.

The principal assumptions used in determining the retirement benefit liability for the Bank's retirement benefit plan as of December 31, 2012 are shown below:

Discount rate	6.29%
Expected rate of return	7.00%
Salary increase rate	7.00%

Net retirement benefit cost for the three-month period ended December 31, 2012 recognized in the statement of comprehensive income is as follows:

Current service cost	P3,599,196
Interest cost	4,362,329
Expected return on plan assets	(3,152,411)
Net actuarial loss recognized during the period	383,148
Net retirement benefit cost (Note 29)	P5,192,262

The amount recognized in the statement of condition as retirement benefit liability at December 31, 2012 follows:

Present value of defined benefit obligation	P72,894,686
Fair value of plan assets	56,561,250
Unfunded liability	16,333,436
Unrecognized actuarial loss	(16,133,436)
Retirement liability (Note 22)	P200,000

The movements in the retirement benefit liability at December 31, 2012 recognized in the statement of condition are as follows:

Retirement benefit liability, beginning	P-
Liability assumed from consolidation	6,153,954
Interest cost	4,362,329
Current service cost	3,599,196
Expected return on plan assets	(3,152,411)
Contributions made	(11,146,216)
Net actuarial loss recognized during the period	383,148
Retirement benefit liability, ending (Note 22)	P200,000

Changes in the fair value of plan assets as of December 31, 2012 are as follows:

Fair value of plan assets, beginning	P45,034,443
Expected return	3,152,411
Actual contributions	11,146,216
Actuarial loss	(2,771,820)
Fair value of plan assets, ending	P56,561,250

The major categories of plan assets at December 31, 2012 as a percentage of the fair value of total plan assets follow:

Special deposit account with BSP	87.4
Government securities	12.6

On December 18, 2006, Producers Bank executed a Trust Agreement with the LBP on the management of the Bank's retirement benefit plan.

NOTE 32 - COMMITMENTS AND CONTINGENCIES

The Bank is involved in cases that arise in the normal course of business. The management believes that the outcome of the cases will not materially affect the financial condition of the Bank.

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of late deposit/payment received, items held for safekeeping, and items held as collateral. Even though these obligations may not be recognized in the statement of condition, they do contain credit risk and are therefore part of the overall risk of the Bank. Details at December 31, 2012 are as follows:

Late deposit/payment received	P2,046,002
Items held for safekeeping	3,657
Items held for collateral	2,304

The Bank leases some of its branch offices for a period of five to ten years, renewable upon mutual agreement of the parties, most of which are subject to escalation clauses of 5% to 15% increase in lease payment annually. The Bank paid security deposits on these lease arrangements (see Note 20). The Bank's lease agreements can be pre-terminated any time at the option of the Bank. It is not bound to pay for the unexpired portion of the lease term.

Rent expense amounted to P8,008,521 for the three-month period ended December 31, 2012 (see Note 29).

NOTE 33 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank grants loans and has other transactions with certain directors, officers, shareholders and related interests (DOSRI).

Significant related party transactions are summarized below:

(a) DOSRI Loans

Under the Bank's Policies and Procedures Manual, the transactions of the Bank with its DOSRI, which comprised of loans and other transactions, are made substantially on the same terms as with other individuals and businesses of comparable risks. Under the Bank's DOSRI policy manual and current BSP regulations, the amount of individual accommodations to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book values of their respective investment in the Bank. Such limit does not apply to loans secured by assets considered as non-risk as defined in the regulations and loans granted to officers under the Bank's Employee Fringe Benefit Programs approved by the BSP. In the aggregate, loans to DOSRI should not exceed the Bank's total regulatory capital or 15% of its total loan portfolio, whichever is lower.

Information on loans to DOSRI at December 31, 2012 is as follows:

Total outstanding DOSRI loans	**P187,516,788**
Percent of DOSRI loans to total loans	4%
Percent of unsecured DOSRI loans to total DOSRI loans	9%
Percent of past due DOSRI loans to total DOSRI loans	-
Percent of non-performing DOSRI loans to total DOSRI loans	-

	For the three-month period ended December 31, 2012
Interest income on loans	P1,479,832

As of December 31, 2012, the Bank is in compliance with the BSP regulations on DOSRI.

C&D Properties, a company that is majority-owned by Mr. Andres M. Cornejo, the Bank's majority stockholder, Chairman and CEO, purchased the Bank's conveyed properties at their present book value. The terms and conditions are as follows:

1. Downpayment of 20% to be paid upon execution of Contract/s to Sell; the 80% balance to be paid in five equal annual installments over a period of five years; interest shall be charged on the unpaid balance at the rate of 8% per annum payable annually in arrears to be based on diminishing principal balances and payable coincidentally with the principal payments;

2. The property shall be sold on an "As Is, Where Is" basis; and

3. All taxes, such as the 6% creditable withholding tax, 1.5% documentary stamp tax, transfer tax/fee and other fees/expenses to be incurred in connection with the transfer of the ownership and real property taxes on the property shall be for the account of the Bank up to March 31, 2009; after March 31, 2009, C&D Properties shall be responsible for the payment of real property taxes.

The balance was booked under sales contract receivable.

Name of related party	Related party relationship	Nature of transaction	Amount
C&D Properties	Other related party	Sales contract receivable (Note 10)	P20,766,788
		Accrued interest receivable (Note 10)	942,584
		Interest income (Note 10)	467,370

(b) Loan to a subsidiary

On July 31, 2012, the Bank's BOD approved unsecured line of credit for ICDBank to expire on October 31, 2014, equivalent to 5% of the net worth of the Bank at that time. The approval of the above line of credit was reported to the BSP in accordance with the rules on grant of loans/credit accommodations by banks to their subsidiaries and affiliates.

Name of related party	Related party relationship	Nature of transaction	Amount
ICDBank	Subsidiary	Outstanding loans/credit accommodations	P33,000,000
		Accrued interest receivable (Note 10)	22,528
		Interest income	183,167

(c) Allowance for probable losses at December 31, 2012 related to the amount of outstanding balances and the expense recognized during the period in respect of impaired accounts due from related parties

DOSRI loans	P-
C&D Properties	-
ICDBank	-
	P-

(d) Guarantees given or received

DOSRI loans	P-
C&D Properties	-
ICDBank	-
	P-

(e) Key management compensation and directors' remuneration

Key management personnel are the persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any of its director.

Short-term employee benefits pertain to the compensation received by key management personnel. Compensation includes all benefits constituting all forms of consideration paid, payable or provided by the Bank, or on its behalf, in exchange for services rendered to the Bank.

Details of key management compensation and directors' remuneration for the three-month period ended December 31, 2012 follow:

Key management compensation	**P9,964,682**
Directors' remuneration	**494,730**

NOTE 34 - BASIC QUANTITATIVE INDICATORS OF FINANCIAL PERFORMANCE

The key financial performance indicators follow (in %):

Return on average equity	8.92
Return on average assets	1.19
Net interest margin on average earnings assets	7.37

NOTE 35 - SUBSEQUENT EVENTS

(1) After obtaining approvals by their respective BOD and stockholders, on January 8, 2013, PSBC filed with both the PDIC and the BSP a request for approval to merge PSBC and ICDBbank with PSBC as the surviving thrift bank entity.

(2) In a letter dated January 4, 2013, LBP informed PSBC that it has approved a P450,000,000 UnSD for up to 10 years at an interest rate of prevailing 10-year PDSTF at the time of drawdown plus a spread of 2% or 7% whichever is higher, with no step ups in the interest rate after 5 years.

(3) The MB of the BSP, in its Resolution No. 159 dated January 25, 2013, approved PSBC's request to exercise its call option on its existing P120,000,000 UnSD that carries an interest rate of 9.1192%.

(4) After having obtained MB approval for PSBC to exercise its call option on its existing P120,000,000 UnSD issued to LBP that carries an interest rate of 9.1192%, the Bank effected the prepayment of its P120,000,000 UnSD with LBP on February 11, 2013.

(5) On January 18, 2013, the Development Bank of the Philippines ("DBP") formally informed PSBC of the renewal of its Clean Revolving Credit Lines in the amount of P500,000,000.

(6) On January 25, 2013, the AGFP advised PSBC that it has approved the grant of an increased guarantee line for the Bank in the amount of P400,000,000 from P50,000,000; P400,000,000 is the maximum guarantee facility that AGFP can provide a participating financial institution.

(7) On February 8, 2013, the BSP approved the request of the Bank for authority to establish branches in the following locations:

Approved Branch Locations

	Municipality / City	Province	Region	Income Classification
1	Bayambang	Pangasinan	I	1st Class Municipality
2	Alaminos City	Pangasinan	I	4th Class City
3	Lingayen	Pangasinan	I	1st Class Municipality
4	Rosario	La Union	I	1st Class Municipality
5	Aurora	Isabela	II	3rd Class Municipality
6	Cordon	Isabela	II	4th Class Municipality
7	Tumauini	Isabela	II	1st Class Municipality
8	Pantabangan	Nueva Ecija	III	4th Class Municipality
9	Jaen	Nueva Ecija	III	1st Class Municipality
10	Laur	Nueva Ecija	III	3rd Class Municipality

11	Santo Domingo	Nueva Ecija	III	3rd Class Municipality
12	Maria Aurora	Aurora	III	2nd Class Municipality
13	Capas	Tarlac	III	1st Class Municipality
14	Castillejos	Zambales	III	1st Class Municipality
15	Imus City	Cavite	CALABARZON (IV-A)	1st Class City
16	Dasmariñas City	Cavite	CALABARZON (IV-A)	1st Class City

(8) On January 31, 2013, the following simultaneous events transpired insofar as the Bank's Escalante City, Negros Occidental OBO is concerned:

a. The Escalante City, Negros Occidental OBO was upgraded into a regular branch as it was one of the consolidation incentives granted by the MB in the consolidation of Producers Bank and NRBV;

b. The location of the said banking office was transferred to another location;

c. The operation of the OBO was closed; and

d. The regular branch was simultaneously opened in the new location.

(9) The MB, in its Resolution No. 276 dated February 14, 2013, granted PSBC Marilao Branch the authority to accept government deposits from the municipality of Marilao, Bulacan on a continuing basis.

(10) The Philippine Business for Social Progress ("PBSP") renewed the credit line of PSBC under the SMEC Credit Facility in the amount of P50,000,000 to expire on January 29, 2014.

(11) In a letter dated March 1, 2013, the BSP informed PSBC that the Bank has satisfactorily complied with the requirements for the renewal of its accreditation as an Accredited Rural Financial Institution ("ARFI") under RA 10000 and BSP Circular No. 736 and as such, the Bank's status as an ARFI has been renewed for another year and will expire on January 7, 2014. The Bank's Accreditation Reference No. ("ARN") 20120201-BSP-0002 remains the same.

(12) The Bank opened its 82nd branch in Jaen, Nueva Ecija on March 12, 2013, and its 83rd branch in Silay City, Negros Occidental on March 18, 2013.

NOTE 36 - INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR)

A. REVENUE REGULATIONS (RR) NO. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 which prescribes additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying the tax returns. Under the said RR, companies are required to disclose, in addition to the disclosures mandated under PFRS and such other standards and/or conventions that may heretofore be adopted, in the Notes to the Financial Statements, information on taxes, duties and license fees paid or accrued during the taxable year. In compliance with the requirements set forth by RR No. 15-2010, hereunder is the information on taxes, duties and license fees paid or accrued for the three-month period ended December 31, 2012.

(a) Withholding taxes

Withholding taxes on compensation and benefits	P3,557,182
Expanded withholding tax	980,947
Final withholding taxes from interest on deposits	1,601,539
	P6,139,668

(b) Documentary stamp taxes

Issuance of certificates of time deposit	P998,767
Loan instruments passed on to borrowers	3,542,764
	P4,541,531

(c) Other taxes and licenses

Gross receipts tax	P6,340,346
License and permit fees	607,408
Registration fees	40,830
Real property tax	303,976
	P7,292,560

As of December 31, 2012, the Bank has no pending tax court cases nor has received tax assessment notices from the BIR.

B. REVENUE REGULATIONS NO. 19-2011

RR No. 19-2011 was issued on December 9, 2011 to prescribe the new BIR Forms that will be used for Income Tax filing covering and starting with Calendar Year 2011, and to modify Revenue Memorandum Circular No. 57-2011. Pursuant to Section 244 in relation to Sections 6(H), 51(A)(1), and 51(A)(2) of the National Internal Revenue Code of 1997 (Tax Code), as amended, these Regulations are prescribed to revise BIR Form Nos. 1700, 1701 and 1702 to reflect the changes in information requested from said BIR Forms and to enable the said Forms to be read by an Optical Character Reader. Under Guidelines and Instructions of BIR Form No. 1702, page 4, the following schedules are prescribed under existing revenue issuances which must form part of the Notes to the Audited Financial Statements.

The Bank's transactions are subject only to regular/normal tax rate. It does not have transactions exempt from tax or subject to special rate.

(a) Interest income

On loans and receivables	P152,766,564
Others	-
	P152,766,564

(b) Interest expense

On deposits	P12,292,957
On bills payable and other borrowings	21,809,359
	P34,102,316

(c) Non-operating and taxable other income

Bank commission	P18,318,508
Service fees	12,913,876
Miscellaneous income	5,046,825
	P36,279,209

(d) Itemized deductions

Salaries and allowances	P40,070,710
Bad debts	12,026,809
Taxes and licenses	11,821,624
Transportation and travel	11,398,578
Retirement benefits	11,146,216
Depreciation	10,827,809
Repairs and maintenance - Materials/supplies	8,391,504
Rental	8,008,521
Communication, light and power	6,445,128
Insurance	4,319,389
Office supplies	3,791,371
Litigation and asset acquired expenses	2,809,245
Security services	2,655,362
Representation and entertainment	1,455,643
Professional fees	722,249
Miscellaneous	7,994,202
	P143,884,360

NOLCO applied during the period amounted to P11,059,097.