



29 July 2011

**PHILIPPINE STOCK EXCHANGE, INC.**

Ayala Tower, Ayala Avenue  
Makati City

Attention: **Ms. Janet A. Encarnacion**  
*Head, Disclosure Department*

Ladies and Gentlemen:

Re: Memorandum of Agreement re: sale by PBC's major shareholders of  
stake in PBC to ISM Group

We write in reply to your letter dated 27 July 2011 requesting for additional information on the above-referenced matter.

We reply as follows:

- a. **Date of approval by the Corporation's Board of Directors of the acquisition of stake in PBC;**

The Executive Committee of the Board of Directors (the "ExCom") of ISM Communications Corporation (the "Company") approved the participation of the Company in the acquisition in a meeting held on 26 July 2011, a few hours prior to the signing of the Memorandum of Agreement ("MOA") between the three major shareholders (the "Selling Shareholders") of Philippine Bank of Communications (the "Bank"). Earlier, in a meeting held on 15 June 2011, the ExCom also authorized the participation of the Company in the auction conducted by Macquarie Capital Advisers ("Macquarie") for the sale of approximately 97.28% of the Bank.

- b. **Rationale for the transaction, including the purpose(s)/reason(s) therefore and the benefits which are expected to be accrued to the Corporation as a result of the transaction;**

Immediately after the sale of the Company's 40% stake (out of a then total of 77.7%) in Eastern Telecommunications Philippines, Inc. ("ETPI") to the San Miguel Corporation ("SMC") group, the Company also yielded management and control

over ETPI to the SMC group. It was likewise announced that in the Company's Annual Meeting held last 25 May 2011 that the Company's management was authorized by the shareholders present (representing more than 2/3 of the Company's outstanding capital stock) to deal with the Company's remaining 37.7% equity in ETPI and the Company's 32.5% interest in Acentic GmbH as management sees fit (including the possible sale of either or both stakes at such terms and conditions as the ExCom would deem beneficial for the Company).

The Company's management then evaluated various opportunities to improve the value of the Company for the benefit of its shareholders. And ultimately, it was decided that acquiring a significant stake in the Bank would be in the best interest of the Company and of its shareholders.

**c. Terms and conditions of the transaction;**

**c.1. Number of shares acquired and price per share**

The Company led a group of investors (the "ISM Group") in acquiring approximately 97.28% of the Bank. The ISM Group purchased a total of 47,909,473 common shares and 120,000,000 preferred shares or a total of 167,909,473 voting shares of the Bank (the "Sale Shares"). The ISM Group acquired the Sale Shares at a purchase price of Php27.88 per share, regardless of class, or for a total purchase price of Php4,681,316,107.24. This includes the Company's share of approximately 37.11% of the Bank.

**c.2. The basis upon which the amount of consideration or the value of the transaction was determined**

The purchase price was the ISM Group's bid for the acquisition of the Sale Shares pursuant to the bidding conducted by Macquarie last 15 June 2011 and which bid was unanimously accepted by the Selling Shareholders.

**c.3. Terms of payment**

The total purchase price for the acquisition was placed in escrow with the Bank as the designated escrow agent of the parties. 10% of the total purchase was released to the Selling Shareholders last 26 July 2011, upon the transfer of the full voting rights over the Sale Shares in favor of the ISM Group. The 90% balance of the total purchase price would be released from escrow in favor of the Selling Shareholders upon completion of all regulatory approvals required for the completion of the acquisition and the transaction of the Sale Shares through the facilities of the Exchange.

**c.4. Other salient terms and conditions of the MOA (such as voting arrangements, event(s) that may lead to the termination of the MOA, if any**

In accordance with banking laws, rules and regulations, the completion of the acquisition is conditioned upon the approval of the Philippine Deposit Insurance Corporation ("PDIC") and the Monetary Board of the *Bangko Sentral ng Pilipinas* ("BSP"). In the unlikely event that such approvals would not be obtained, the transaction will be automatically rescinded and the parties shall be restored to the *status quo* prior to the execution of the MOA.

**d. Sources of funds;**

To fund the acquisition of its share of the Sale Shares, the Company used the proceeds of the sale of its 40% interest in ETPI last 31 December 2010 supplemented by a credit line with a major banking institution.

**e. The nature and extent of material relationship between ISM and PBC, their directors, officers or any of their affiliates, if any.**

Prior to the transaction and aside from the qualifying shares acquired by the Company's nominees to the Board of Directors to the Bank, there were no material relationships between the Company and the Bank, their directors, officers or any of their affiliates.

**f. The interest which directors of the parties have in the proposed transaction;**

Messrs. Roberto V. Ongpin and Eric O. Recto, the Chairman of the Board/CEO and President of the Company, respectively, are members of the ISM Group. In accordance with the terms of the MOA, Mr. Ongpin (in trust for Compact Holdings, Inc.) would acquire approximately 24.90% of the Bank while Mr. Recto would acquire approximately 8.30% of the Bank.

During the special meeting of the Board of Directors of the Bank held after the execution of the MOA last 26 July 2011, Mr. Ongpin was elected as the Bank's new Chairman of the Board while Mr. Recto was elected as its Vice-Chairman. Mr. Reynaldo G. David, one of the independent directors of the Company, was elected to the Board of Directors of the Bank, as one of the nominees of the ISM Group.

**g. Timetable for the implementation/effectivity of the transaction, including the conduct of the tender offer and other related regulatory requirements;**

As previously disclosed to the Exchange, the completion of the transaction is conditioned on the approvals of the PDIC and the BSP. The parties are waiting for the approval of these two regulatory bodies.

Pursuant to the terms of the Financial Assistance Agreement dated 15 March 2004 executed by the Bank, the Selling Shareholders and the PDIC, the parties will file a request for exemptive relief from the conduct of a mandatory tender offer with the Securities and Exchange Commission.

The parties hope to obtain all the foregoing approvals within 30 days from 26 July 2011.

Within 20 trading days from completion of the foregoing approvals, the parties will file an application with the Exchange for the transaction to be considered as a special block sale so that the sale and purchase of the Sale Shares may be transacted thru the trading system and facilities of the Exchange.

- h. Effects on the ownership structure of PBC, including the entities/individuals comprising the ISM Group who will be the beneficial owners of the PBC shares to be acquired, the number of shares and the corresponding percentage of ownership;**

SHAREHOLDER	SHARES BEFORE THE TRANSACTION	%	SHARES AFTER THE TRANSACTION	%
Luy Group	67,350,320	39.02%	-	0.00%
Nubla Group	52,594,030	30.47%	-	0.00%
Chung Group	47,965,123	27.79%	-	0.00%
Public	4,689,492	2.72%	4,689,492	2.72%
ISM Communications Corporation	-	0.00%	64,048,425	37.11%
Roberto V. Ongpin (in trust for Compact Holdings, Inc.)	-	0.00%	42,980,474	24.90%
Langford Universal Finance Ltd	-	0.00%	15,263,964	8.84%
Seumas J. Dawes	-	0.00%	15,172,107	8.79%
Eric O. Recto	-	0.00%	14,326,825	8.30%
Injap Investments, Inc.	-	0.00%	3,581,706	2.08%
Ray Anthony Roxas-Chua III	-	0.00%	3,581,706	2.08%
Gregorio T. Yu	-	0.00%	1,790,853	1.04%

Chan Kok Bin	-	0.00%	1,790,853	1.04%
Benito T. Lim	-	0.00%	1,790,853	1.04%
Edison S. Cham	-	0.00%	1,790,853	1.04%
KLG International, Inc.	-	0.00%	1,790,853	1.04%
Total	172,598,965	100.00%	172,598,965	100.00%

The foregoing ownership structure will change once the Chung and Nubla groups implement their intention to reinvest the proceeds of the sale of their respective shares in the Bank at the same price of Php27.88 per share or up to a total of Php2,803,589,185.64.

**i. Conditions precedent to closing of the transaction;**

Aside from the regulatory approvals discussed above, there are no other conditions precedent to the closing of the transaction.

**j. Effects on the business, financial condition and operations of the Corporation;**

The effect of the transaction on the business of the Company is remarkable considering that the Company (together with the other members of the ISM Group) was able to secure a substantial stake in a heritage bank at a fraction of its market price. The Company was able to fund the purchase of its stake by using only Php100,000,000.00 of its existing cash balance and by liquidating its receivables thereby maintaining the strength of its balance sheet. The investment in the Bank will allow the Company to include the earnings of the Bank in its equity in proportion to its ownership therein. The Bank will now be effectively under the same management as the Company, which is favorable to the best interests of its shareholders.

**k. The plans of the Corporation on PBC; and**

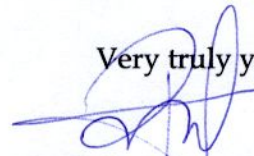
The ISM Group intends to revitalize the operations of the Bank by ensuring that it is adequately capitalized and leveraging on the extensive network of the various components of the ISM Group (as new shareholders of the Bank) to generate more business for the Bank.

**l. Any other information necessary to enable an investor to make an informed investment decision.**

Aside from the foregoing, the Company has no other relevant information to disclose at this time.

We hope that you find everything in order.

Very truly yours,



**Rodolfo Ma. A. Ponferrada**  
Corporate Information Officer