


We think CUSTOMERS

Annual Report 2015





Bank of Commerce

ABOUT THE COVER

Bank of Commerce's current trajectory is hinged on a single philosophy: Superior Service. Through the years, the Bank has grown and evolved, undergoing both internal and external transformations. Yet, through it all, one thing remains unchanged: our commitment to serving you, our valued customers. We pride ourselves in putting your welfare first, keeping in mind what matters most to you. Your family. Your business. Your community. Your future.

Among our valued clients who can attest to the Bank's commitment to service are (from top to bottom): UP Diliman Professor Nathalie Verceles; Rex Book Store, Inc. Chairman and President Atty. Dominador Buhain; EEI Corporation President and CEO Roberto Jose Castillo; The Coffee Bean and Tea Leaf Finance Director Edelfonso Narvaez; Baliwag Group of Companies President, CEO and General Manager Joselito Tengco; Drysdale Marketing Owners Noel Bayonito and Maila Bayonito; MEC Property Management, Inc. President and JADDAX International, Inc. Vice President Maggie Chavez Saribong; AXN Tyre Medic Center Owner Susan Lim; FLAX Inc. President and CEO Akira Nakata; and Karldan Trading Owner Armina San Jose.

We are honored to have been part of their journey and confident that our partnership will achieve even greater heights of success in the future.

We are Bank of Commerce. We think CUSTOMERS.

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ABOUT US

COMPANY PROFILE

Bank of Commerce is one of the country's progressive commercial banks and is licensed by the Bangko Sentral ng Pilipinas (BSP). The Bank has been in operation since 1963 and traces its origins to the Overseas Bank of Manila with headquarters in Binondo, Manila.

The Bank has since then evolved through different phases of growth. In 1980, Overseas Bank of Manila changed its name to Commercial Bank of Manila. The following year, the Government Service Insurance System (GSIS) acquired the Commercial Bank of Manila and used "ComBank" as the Bank's short name. In 1984, ComBank acquired Royal Savings Bank. The First National Bank of Boston, one of the oldest and leading banks in the United States, and a local investment group acquired ComBank in 1988 and was then renamed Boston Bank of the Philippines.

In November 1991, the Bank changed its official name to Bank of Commerce. The buyout of the majority interest of the First National Bank of Boston was completed in 1993, placing Bank of Commerce under complete Filipino ownership. As part of its growth plans, Bank of Commerce acquired Pan Asia Bank and purchased selected assets and liabilities of Trader's Royal Bank in 2001. These takeovers significantly increased the Bank's presence in the banking industry.

San Miguel Properties, Inc., a subsidiary of San Miguel Corporation (SMC), and San Miguel Corporation Retirement Fund, the registered retirement plan of SMC group employees, emerged as substantial shareholders of Bank of Commerce in 2008. The new majority ownership reinforced capital, bolstered reserves, improved risk management systems, and placed dynamic individuals at the helm, resulting in strengthened banking operations, systems, and services.

On January 16, 2013, the Securities and Exchange Commission (SEC) approved the extension of the corporate life of Bank of Commerce for another fifty (50) years from December 13, 2013. Bank of Commerce provides innovative banking solutions and a complete range of products and services in deposit, commercial loans, credit card services, consumer banking, corporate banking, treasury, asset management, trust, and investment. In terms of service reach, the Bank relaunched the Retail and Corporate Internet Banking facilities with enhanced features to encourage consumers and corporate clients to transact regular banking services such as bills payment, fund transfers, card loading, and other services via the internet banking platform.

The Bank has a network of 128 branches and 265 automated teller machines (ATMs) strategically located nationwide.

ABOUT US

VISION, MISSION, AND SERVICE PROMISE

VISION

To be the bank of choice for the business community, delivering total banking experience characterized by friendly and outstanding service with the desire to provide a better quality of life for all.

MISSION

Our business is professional banking. We commit to serve our clients with the highest standards of integrity and quality. We strongly believe in our human resources and dedicate ourselves to their continuous development.

We will create value for our stakeholders by being among the top banks in the industry. In so doing, we contribute to nation building.

We are Bank of Commerce.

SERVICE PROMISE

With integrity and financial stability, we commit to deliver superior service to you, our discerning customers.

Through competent and warm professionals who understand, anticipate, and fulfill your needs with a sense of urgency in a safe and guest-friendly environment, we promise you a meaningful banking experience.

ECONOMIC FORECAST

POISED FOR GROWTH

The world continues to see a stronger, more aggressive Philippine economy that remains steadfast in its pursuit of accelerated growth. The country's impressive performance in 2015 is a strong testament to its firm commitment to achieving excellence in all sectors of the economy, building a solid foundation for sustained growth momentum in 2016 and beyond.

The Philippines achieved an average full-year GDP growth of 5.8%. The robust growth exhibited during the last quarter of 2015 reflects the country's steady progression toward a higher growth path and affirms its position as one of Asia's fastest-growing economies.

This impressive GDP growth was driven by higher consumer spending, which grew by 6.2%, and the strong performance of the construction sector, posting a 20.6% increase compared to 2014's 6.3%. Government spending jumped by 9.4% against 1.7% last year, while public and private investments posted a 13.6% increase compared to 5.4% in 2014. The business process outsourcing (BPO) industry and the services sector contributed to the economy by growing 6.7% versus 5.9% in 2014. A record-low inflation rate of 1.4% also complemented our steady GDP growth.

The country's performance has no doubt earned the confidence of major international credit rating agencies. Fitch Ratings upgraded its investment rating on the Philippines to BBB Positive from BBB Stable in 2014, while Japan Credit Rating Agency and National Information and Credit also affirmed an upgrade in their sovereign ratings.

Such remarkable growth proves how the domestic economy continues to benefit from successful governance and economic reforms that translate to sustained investment and consumption growths. The upward economic trajectory also helps the nation curb the impacts of weather-related disasters, global economic slowdown, the elections, and other external factors.

Amidst such challenges and uncertainties, the resiliency exhibited by the country has merited enough optimism to place it among the world's fast emerging markets. Currently, the Philippines' economic ranking in the Index of Economic Freedom has jumped to 70th from 76th in 2014. The World Economic Forum likewise moved the Philippines to the 47th spot from 52nd in its Global Competitiveness Index.

With sound fundamentals and ongoing structural changes that are designed to increase the country's resiliency amidst external shocks, the Philippines heads toward a brighter 2016 and gears up to provide a stronger economy and a positive business outlook. Taking a cue from the satisfactory performance the country has displayed in 2015, the National Economic and Development Authority (NEDA) expects our GDP to grow between 6.8% and 7.8% in 2016. International credit-rating agency Standard & Poor's, the Asian Development Bank (ADB), and the International Monetary Fund (IMF) are likewise confident that the solid macroeconomic fundamentals that have been put in place by the Aquino administration will bring an average full-year growth of above 6%.

While still in the early stages of sustained economic growth, the Philippines is expected to remain one of the best-performing countries in Asia, focused on improving and stabilizing its fiscal position. The Bangko Sentral ng Pilipinas (BSP) has set the inflation rate target between 2% and 4% and the Peso exchange rate to average between PHP42 and PHP45 in 2016. The government has also set its sights on ramping up public infrastructure spending, aiming to spend PHP766.5 billion or 5% of the target GDP to sustain the country's growth momentum. Budget deficit target for next year is set at PHP284 billion or 2% of the target GDP.

As the Philippines aims for higher growth in 2016, strengthening each sector of the economy, as well as the socioeconomic resiliency of each individual and community has never been more important. NEDA has underscored the need to diversify products and markets in the agriculture, industry, and services sectors, as well as to design more projects that support infrastructure development, improve the transport and logistics system, and harness human capital by way of higher-value jobs. In fortifying the socioeconomic resiliency of Filipinos, 2016 should bring in more opportunities to introduce risk mitigation measures, disaster preparedness, social protection, and social insurance and programs that support volunteerism, inter-LGU interaction, and community building.

While still in the early stages of sustained economic growth, the Philippines is expected to remain one of the best-performing countries in Asia, focused on improving and stabilizing its fiscal position.

REPORT

FROM THE CHAIRMAN AND PRESIDENT & CEO

2015 proved to be another great year for the Philippine economy. The domestic economy managed to achieve an impressive GDP growth of 5.8% amidst pressing local and global challenges. The strong finish that the Philippines displayed during the last quarter of 2015 indeed reflects its fervent commitment to achieving excellence and its burning desire to serve as a shining example for other ASEAN emerging economies.

Backed by solid fundamentals and sound economic reforms, the Philippines performed better than expected in 2015 with a record-low inflation rate of 1.4% and posting USD6+ billion in foreign direct investments, while keeping the Peso-Dollar exchange rate stable at PHP45.503. Such notable performance has no doubt gained the confidence of international credit-rating agencies like Fitch Ratings, Standard & Poor's, Japan Credit Rating Agency, and the National Information and Credit, which all upgraded the Philippines to Investment Grade.

The banking industry has undoubtedly benefited from the impressive growth of the domestic economy. Bank lending grew by 13.1% in 2015, with corporate borrowings making up 80% of the total loans. With the influx of start-up players and middle market entrepreneurs becoming more aggressive than ever in initiating their expansion targets, lending to medium and SME sectors continues to be on a growth trajectory that attracted more involvement from major banks due to its far-reaching effects on poverty alleviation in the countryside. Consumer loans, on the other hand, continued its growth momentum, posting a 14.2% increase, with non-performing loans pegged at just 4% of the total loan portfolio.

Not one to rest on its laurels and driven even more to further sustain these outstanding accomplishments, the banking industry remains steadfast in its mission to promote transparency and good governance. As you all may well know, the industry is at the forefront of one of the most challenging cases in the country's history. This has prompted banks across the country to heighten their actions in connection with dealing with anti-money laundering and anti-terrorist financing activities. Banks have very significant investments in these activities and may have, at one point, even questioned the wisdom in all the additional capital and manpower expenses associated with compliance. Still, recent findings only suggest that banks would need to pour in additional investment in ensuring strong compliance and good governance.

In spite of this recent setback, the Philippines continues to enjoy heightened business interest and confidence, with more companies continuing to seek out ways to take advantage of the high growth that the country expects to enjoy in the coming years. The banking industry remains committed to providing a stronger financial landscape for the country to sustain its growth momentum.

Bank of Commerce, in particular, fully commits itself to sustaining the growth of the Philippine economy. Even in the face of global risks and domestic challenges, the banking fundamentals of the Bank remained strong and undeterred in 2015.

The Bank's total assets moved relatively sideways from PHP141 billion in 2014 to PHP136 billion in 2015 as a result of the deliberate reduction of higher cost deposits to improve net interest margin. Growth in our loan portfolio was sideways as well due to market liquidity and major loan repayments. Market expectation of rising interest rates put pressure on deposit rates, as competition already started to raise deposit rates ahead of any Federal rate hike announcements, which affected the Bank's net interest margins. Despite this, our non-interest income grew on the back of higher trading gains and sale of assets.

Regardless of the challenges the Bank faced in generating income from traditional sources, we remained focused in our vision to improve our internal operations. Our efficiency ratios advanced significantly due to the process changes that we implemented to enhance service delivery and generate cost savings. We improved turnaround time, storage, indexing, and filing of critical documents through the implementation of the DIARS (Document Imaging and Recording System), as well as generated significant savings through the rationalization of armored car service in Cash Centers and standalone branches.

Through the efforts implemented by the Branch Banking Group (BBG), we were also able to improve our operational cost structure in 2015. The Bank further tightened on reports, communication, and utilities, as well as executed unique initiatives that helped us gain significant cost savings. These initiatives include ATM card activation transfer from e-banking to the branches, and access to Smart Card Vista by branches that streamlined the process for card replacement and activation.

"...expect Bank of Commerce to be more active and aggressive in delivering exceptional service and an even better product portfolio to our clients and the communities we operate in."

REPORT

FROM THE CHAIRMAN AND PRESIDENT & CEO

In 2015, we also concentrated on improving the capabilities of our people in pursuit of bringing superior banking services to our customers. We initiated programs to provide a more engaging work environment for our people, such as Service Culture workshops and Sales trainings to help them imbibe the ideal attitude, service skills, and leadership principles needed to promote a Superior Service Culture-centric organization.

We also put our people's talents and skills to good use through CSR initiatives that aimed to enhance service delivery to the communities we serve. With volunteerism and community serving as our main thrusts, we implemented programs that promote self-sustainability for low-income families, in close partnership with respected organizations such as the San Miguel Foundation, Inc., International Care Ministries Foundation, Inc., and World Vision. Our partnership with them has helped us introduce meaningful projects that not only helped bring job opportunities for indigent families but also provided our employees an opportunity to contribute in making the communities stronger and more self-sufficient.

In line with improving service delivery to our customers, we strengthened our product portfolio in 2015 with a host of new products and services. We successfully launched the Bank of Commerce MasterCard that cemented our capability to build, enhance, and promote an award-winning product at par with industry standards. We reached out to markets like young professionals by introducing the Bank of Commerce Cash Card that allow them to control their finances, pay bills, send allowances, and shop in-store or online without overspending. We took the small business loan service to another level with the launch of our Business Credit Line (BCL), a safe and reliable revolving credit line facility that allows clients to easily avail a credit line through checks.

We complemented these new products with fresh services that support the banking needs of our clients. We introduced a more enhanced Corporate Internet Banking Facility that brings a suite of solutions that cover liquidity, collections, and disbursement management. The ForexCenter Program brought in a stronger source of revenue in the foreign exchange business. Our Cross-Selling Program not only increased the ratio of products per client but also grew our total number of accounts, encouraged multiple product utilization, and inculcated the culture of cross-selling among our branch personnel. The Bank also implemented Consumer Protection policies that helped raise our profile and integrity in putting client welfare first and foremost.

As we enter 2016, we are more inspired than ever to achieve excellence in delivering superior banking services to our customers. We will be focusing on diversifying our credit card portfolio through new Bank of Commerce MasterCard credit card variants. We are eyeing to further harness the latest technology through our Mobile Banking facility, which will enhance our customers' banking experience. We will also launch our RFID (radio frequency identification) Card next year, in collaboration with San Miguel Corporation.

Backed by these bold initiatives, Bank of Commerce is fully committed to helping the Philippine economy sustain its economic performance. To support higher growth, the capacity of the domestic economy should expand to provide for robust infrastructure development, efficient transport and logistics system, and competent human capital. Improvements on these sectors will provide the population more chances for employment, more ancillary businesses to flourish, and new businesses to explore that will encourage more people to be bolder and more confident to invest in themselves and strive to make their lives even better for them, their families, and their community. This will be our country's pillar for socioeconomic resiliency and will be the engine that will fuel our country's continued growth.

As we continue to ride on the country's sustained positive growth, expect Bank of Commerce to be more active and aggressive in delivering exceptional service and an even better product portfolio to our clients and the communities we operate in. We are confident that through the hard work and perseverance of our employees and the overwhelming support of our directors, officers, and stakeholders, Bank of Commerce will continue to inspire excellence in banking and shall remain a beacon of integrity and exemplary performance today and in the years to come.

JOSE T. PARDO
CHAIRMAN

ROBERTO C. BENARES
PRESIDENT AND CEO

CLIENT TESTIMONIAL

BALIWAG GROUP OF COMPANIES

GROWING TOGETHER TOWARDS SUCCESS

It is hard to believe that the humble tire vulcanizing business owned by Nanay Turing and her husband Jose Tengco in the late 1940s has grown to become what is now Baliwag Group of Companies.

After the untimely passing of her husband, Mrs. Victoria Vda. De Tengco carried on as a young widow, starting a rice trading business in Baliwag, Bulacan, and Divisoria. On her 6x6 truck, she transported rice in the morning and ferried commuters in the afternoon. This gave her the idea of starting a transport business. With an initial fleet of five Ford buses, Baliwag Transit, Inc. was established in 1968 with routes through Nueva Ecija, Bulacan, Pampanga, Pangasinan, and later, Cagayan Valley.

Today, Baliwag Transit, Inc. has become Baliwag Group of Companies, a thriving conglomerate that employs over 5,000 employees across 20 companies including Baliwag Navigation, Golden Bee Transport, Baliwag Marketing, Josefina Realty, Baliwag Tours and Travel Corporation, Maritime Academy, Holiday Park Hotel, and Westwind Shipping Corporation, among others. Baliwag Group of Companies credits their longevity and sustained growth through the decades to their commitment to satisfying their customers. Instead of being swayed by short-lived business trends, they invest instead in training their officers and staff to be courteous, trustworthy, disciplined, and focused on delivering customer satisfaction at all times.

> "From the very beginning, Bank of Commerce treated us not just as a client, but as a partner in business."

Bank of Commerce has been a part of Baliwag Group of Companies' success since the early 1970s. "Back then, the Bank provided the financial support we needed through deposit pick-up, bills purchase line, back-to-back loan, and business loans with accommodating interest rates that allowed us to grow our business," says Baliwag Transit, Inc. President, CEO and General Manager, Joselito S. Tengco. "Bank of Commerce offers us products and services that are just right for us. But more than that, they give us personalized service that keeps our businesses' success in mind. From the very beginning, Bank of Commerce treated us not just as a client, but as a partner in business."

CLIENT TESTIMONIAL

REX BOOK STORE, INC.

SHAPING THE FUTURE THROUGH BOOKS

A top-of-mind industry player, Rex Book Store was first established in January 24, 1950. The company's first office was located at Azcaragga Street (now C.M. Recto Avenue) in Manila. The business, put up by Jovita Buhain, was then primarily engaged in buying and selling secondhand books.

One of Buhain's children, Atty. Dominador "Jimmy" Buhain, Jr., became the company's pillar as he widened the scope of its operations. His passion for distributing books to a larger audience also helped him recognize the integral role retail operations and customer relations played in their business. "Paying attention to customers honed our sense of what we should publish," Buhain shares. Atty. Buhain's love for books later led him to become the President of the Philippine Educational Publishers Association (PEPA), founder of the ASEAN Book Publishers Association, Honorary President of Asia Pacific Publishers Association, Chairman of the Printing Industry Board Foundation Incorporated (PIBFI), and Vice President of the Forum for Asia Pacific Graphic Arts Association, among others.

Fast forward to 2016, Rex Book Store, Inc. (RBSI), is now among the leading educational book publishers and bookstore chains in the Philippines, with 28 branches across the country. The company publishes books for all academic levels, from basic education (pre-elementary, elementary, and high school), to tertiary, law, professional books, and references.

At present, RBSI has over 10,000 titles under its belt. RBSI has already ventured into production of interactive materials like activity posters and charts. It is also developing CDs and digital versions of some of its books.

Throughout these growth and future plans, Bank of Commerce is RBSI's partner bank of choice. RBSI has fully relied on the Bank's expertise and support for its financial needs.

Atty. Buhain looks forward to more years of partnership with Bank of Commerce, confident that the Bank and RBSI can achieve many more milestones together.

Bank of Commerce's Loan Facility has also helped Atty. Buhain build his personal legacy– a book museum and cultural display area that houses most of his collection of souvenirs from his travels spanning 221 countries and numerous heritage sites around the world. Bank of Commerce's Auto Loan Program also enables RBSI to shuttle between their provincial offices.

Aside from the range of products and services, the Bank's responsiveness and sensitivity to client needs have strengthened the long-standing relationship with RBSI. "Bank of Commerce has provided friendly and professional service. We have known each other since the Trader's Royal Bank days. They know how to anticipate and meet our business goals and had proactively given us solutions for our requirements. The Bank is very easy to deal with and they always make us feel welcome."

Atty. Buhain looks forward to more years of partnership with Bank of Commerce, confident that the Bank and RBSI can achieve many more milestones together, especially as the company plans to expand to neighboring Southeast Asian countries. "We will definitely look into how Bank of Commerce could help us realize this dream," says Atty. Buhain.

CLIENT TESTIMONIAL

EEI CORPORATION

PARTNERS IN NATION-BUILDING

A world-class construction and engineering company, EEI Corporation was first established in 1931 as a machinery and mills supply house for the mining industry. Since its inception, the company has built several power plants, refineries, petrochemical plants, cement plants, mining facilities, industrial plants, schools, hospitals, roads, bridges, seaports, airports, railways, water distribution stations, flood control systems, steel structures, and modular assemblies, among others. The company also operates a steel fabrication plant in Bauan, Batangas.

From their humble beginnings, EEI Corporation has grown to become a powerhouse in the field of infrastructure and nation-building. In 2012, the company received the Best of Asia in Corporate Governance Award during the 8th Corporate Governance Asia Recognition Awards, as well as the ASEAN Business Award for the Most Admired Enterprise in the Large Employer Category during the 9th ASEAN Business and Investment Summit. It was also recognized as the Best Small Cap Company in the Philippines in *FinanceAsia*'s 2012 poll for Best Managed Companies.

Through it all, EEI has turned to Bank of Commerce to address their financial needs. Short-Term Loans from the Bank had helped EEI meet their working capital requirements, while Bank Guaranty and Standby Letter of Credit facilities allowed the company to bid on big projects and collect advance payments. "EEI made a successful bid for the TransAire Development Holdings Corporation Caticlan Project and Citra Central Expressway Corporation's Skyway Stage 3 Project, thanks in part to the Bank Guaranties provided by Bank of Commerce," shares EEI President and CEO, Roberto Jose L. Castillo, citing a notable example of EEI Corporation's successful collaborations with the Bank.

"We look forward to many more years of harmonious and mutually beneficial relations with Bank of Commerce as partners in nation-building."

With an increase in their infrastructure and electromechanical projects in the last few years, EEI continues to grow steadily. Within the country alone, they are currently erecting 21 residential and commercial buildings, two airports, and various other facilities. Construction of five power plants, four petrochemical plants, and 13 other plants in the Philippines and in the Kingdom of Saudi Arabia is also underway. EEI Corporation is also involved in the design and build of the Caticlan Project of TransAire Development Holdings Corporation, construction of Sections 3 and 4 of the Skyway Stage 3 Project of the Citra Central Expressway Corporation and civil works for Universal LRT Corporation's MRT 7 Project. One of the company's subsidiaries, EEI Power Corporation, also invests in power-generation projects, most recently in renewable energy. It already has stakes in solar, wind, and geothermal projects, which already contribute to the company's bottomline.

As it prepares to welcome even more opportunities for growth and expansion, EEI Corporation continues to rely on Bank of Commerce for support in providing working capital, as well as standby letters of credit for future bidding opportunities.

"Together, we have helped in building the nation and improved the lives of many people," states Castillo. "We look forward to many more years of harmonious and mutually beneficial relations with Bank of Commerce as partners in nation-building."

CLIENT TESTIMONIAL

DRYSDALE MARKETING

BRIDGING DREAMS

After eight years of working as a marketing personnel, Noel Bayonito decided to put up his own business. In 2001, he established Drysdale Marketing, a company engaged in wholesale and retail distribution of industrial supplies, generators, power tools, welding equipment, as well as plumbing, hardware, and construction supplies.

The business started with just three employees, all of whom were personally trained by Bayonito and his wife Maila. "We kicked off with limited resources," he recalls. Drysdale Marketing had to make the most of what they had then and even resorted to ordering products via term (60-180 days) from main suppliers.

A window of opportunity opened in 2003 when Bank of Commerce entered into the picture. "This is the only bank that trusted us. They gave us our break," shares Bayonito. Initially, Bank of Commerce's Domestic Bills Purchase Line (DBPL) Facility was implemented for the company's check collections to address financial gaps and meet check clearing requirements.

As the company found its footing and began to take its first steps towards expansion, Bank of Commerce provided easier access to transport solutions through Bank loans, including Auto Loans. "That was a turning point. It allowed us to reach and distribute to farther provincial markets," shares Bayonito. "It tremendously increased our sales and enabled us to gradually upgrade our inventory." The Bank's SME Term Loan Facility also helped the company finance its head office and five-storey warehouse, while the Bank's Consumer Lending Division was tapped to help build their residence in Quezon City. Drysdale Marketing also continues to rely on the Bank's Corporate Banking Group's Omnibus Facility to accommodate post-dated checks used as additional working capital.

> "This is the only bank that trusted us. They gave us our break."

Now with a growing manpower and customers nationwide, it is clear that Drysdale Marketing has come a long way. For the Bayonitos, there is still a lot of room for improvement. Noel still visits his provincial customers regularly, citing that a hands-on approach and good rapport with both clients and employees have propelled the company towards stability and success. Drysdale Marketing acknowledges the convenience of using a Bank of Commerce MasterCard credit card to book online for local business trips and for family vacations overseas.

He recognizes Bank of Commerce's contribution to their success story. "Bank of Commerce supported us every step of the way," says Bayonito. "Their officers and staff are so accommodating that they have become more like financial advisers. No other bank can match the good banking relationship Bank of Commerce has established with us, and that's why we remain loyal."

PRODUCTS & SERVICES

RETAIL PRODUCTS

- Savings Account with ATM
- Savings Account with Passbook
- Savings Account Plus
- Checking Account
- Complete Checking Account
- US Dollar Savings Account
- Euro Savings Account
- Junior Smart Savers Savings Account
- Time Deposit with Passbook – Overnight to Less than 1 month (also called YPSA – Money Market)
- Time Deposit
- One-Year Time Deposit
- US Dollar Time Deposit
- Euro Time Deposit
- SSS Pension Account
- US Veterans Pension Savings Account (PHP and USD)
- Payroll Savings Account
- Cash Card

CONSUMER LOANS

- Home Loan
- Auto Loan
- Salary Loan

CREDIT CARD

- Bank of Commerce MasterCard

ALTERNATIVE CHANNELS

- ATM
- Corporate Internet Banking
- Retail Internet Banking

TRUST PRODUCTS AND SERVICES

- Fund and Wealth Management
    - Investment Management Account
    - Living Trust Accounts
- Unit Investment Trust Funds
    - Diversity Money Market Fund
    - Diversity Peso Bond Fund
    - Diversity Dollar Bond Fund
    - Diversity Dividend Focused Fund
- Trust and Other Fiduciary Services
    - Employee Benefit Trust
    - Facility / Loan Agency
    - Trust under Indenture
    - Collateral Trust
    - Escrow Agency
        - Buyer and Seller Escrow
        - POEA Escrow
        - BIR Escrow
        - HLURB Escrow
- Other Institutional Trust / Agency Accounts

TREASURY PRODUCTS

- Fixed Income Government Securities (Peso / Dollar)
- Corporate Bonds
- Foreign Exchange

CORPORATE BANKING

- Working Capital Loan
- Term Loan
- Capital Expenditure Financing
- Project Financing
- Small Business Loan – Term Loan
- Small Business Loan – Business Credit Line
- Foreign Currency Denominated Loan
- Trade Financing
- Letters of Credit
- Export Packing Credit
- Export Bills Purchase
- Domestic Bills Purchase

CASH MANAGEMENT AND PAYMENT SERVICES

- Account Balance Inquiry
- Transaction History
- SOA Downloading
- Electronic Fund Transfer to Own Accounts
- Electronic Fund Transfer to Third Party Accounts
- Auto Debit Arrangement (ADA)
- Auto Credit Arrangement (ACA)
- Payroll / Payment Crediting Service
- Value Check Service (MC Cutting Service)
- Deposit Pick-Up Service
- Bills Payment Facility
- CheckWriter Plus
- Payroll Plus
- OTC Collection Service
- PDC Warehousing Facility
- CDT Payments (via BoC PAS5 Facility)

- BancNet BIR Electronic Filing and Payment System (BIR eFPS)
- BancNet Bills Payment
- BancNet POS
- BancNet Online Shopping

REMITTANCE SERVICES

- Sikap Pinoy OFW Account
- Credit to Bank of Commerce Accounts
- Credit to Accounts with Other Philippine Banks
- Cash Pick-up – Remittance from Partners & Tie-ups
    - Al Ansari Exchange LLC
    - Al Ghurair Exchange LLP
    - Arab National Bank
    - Prabhu Money Transfer
    - TransFast
    - Eastern & Allied Pty Ltd (HaiHa Money Transfer)
    - U Remit International Corp
    - Family Express Canada
    - WorldRemit Ltd
    - MoneyGram
- Cash Pick-up via Bank of Commerce Payout Partners
- Cash Home Delivery
- SSS Contributions / Loan Payments
- PhilHealth Contributions
- Pag-IBIG Contributions / Loan Payments

FINANCIAL HIGHLIGHTS

ASSETS	2015	2014
Cash and Cash Equivalents	P40.0	P40.2
Reserves	20.7	20.6
Securities (Net)	25.2	28.2
Loans and Receivables (Net)	42.4	42.8
Other Assets (Net)	9.2	8.9
TOTAL	P137.5	P140.7

* Amount in billions

LIABILITIES AND EQUITY	2015	2014
Deposits	P117.2	P119.6
Other Liabilities	3.6	3.9
Equity	16.7	17.2
TOTAL	P137.5	P140.7
	2015	2014
Return on Average Equity	1.9%	8.4%

STATEMENT OF INCOME	2015	2014
Net Interest Margins	P3.1	P3.5
Non-Interest Income	1.6	1.3
OPEX	(4.0)	(3.8)
Reversal of Credit and Impairment Loss	0.1	0.4
Expense from Income Tax	(0.5)	(0.1)
NET INCOME	P0.3	P1.3

* Amount in billions

CAPITAL ADEQUACY REGULATORY BASIS	2015	2014
Total Qualifying Capital for "CAR"	P14.6	P14.6
Risk-Weighted Assets	66.7	66.1
"CAR" or Capital Adequacy Ratio	21.9%	22.1%
Unimpaired Capital (as Commercial Bank)	15.5	15.3

* Amount in billions

OPERATIONAL HIGHLIGHTS

Our steadfast commitment to banking excellence has driven us to brave the challenges of 2015 with a bolder resolve to excel in all areas of our business. Backed by our solid banking fundamentals, we remained focus in our goals of improving our operations and delivering a stronger portfolio of products and services to our clients.

BRANCH BANKING GROUP

Bolstered by initiatives instituted the previous year, the Branch Banking Group (BBG) realized solid gains and accomplishments in 2015.

Quality of operations continued to improve, highlighted by better streamlined processes, effective systems, empowered frontliners, and a stronger control environment. More branches obtained high marks in the annual audit reviews, with branch officers and staff continually delivering on the Bank's service promise of a meaningful banking experience for customers.

To complement these, BBG embarked on more image-enhancement projects, starting with the refurbishment of outmoded branches and transferring of non-strategic locations to sites that have more business potential and market accessibility. The year 2015 saw the opening of a new branch in NAIA Terminal 3, a move that repositioned a branch, previously located in Paseo de Roxas, Makati City.

BBG likewise re-introduced its relocated branches in Visayas Avenue, West Avenue, Subic, Taft Avenue, Caloocan, and Tagbilaran. Our Pasig Renaissance branch, meanwhile, has been transformed to reflect the Bank's new standard look and feel. By the last quarter of the year, a branch in another emergent market – the Mandaue NRA in Cebu – was inaugurated, using a license in the old Pasil district.

These back-to-basic strategies allowed our branches to achieve substantial business growths in 2015. Total CASA deposits were higher by close to PHP4.2 billion year-on-year and Treasury and Trust referrals increased by over PHP3.5 billion. Total branch-originated consumer loan bookings, on the other hand, surged to nearly PHP1 billion.

Such impressive gains are a testament to the effectiveness of the transformation initiatives implemented by BBG across the Bank's branches over the past two years.

CORPORATE BANKING GROUP

Under the Lending Division, the loan portfolio of the Corporate Banking Group (CBG) moved sideways, ending at PHP33.09 billion in 2015. During the year, CBG continued to pursue its strategy of expanding coverage of the country's Top 1,000 corporations, middle market, and SME segments.

CBG continued to support numerous fundraising activities involving the infrastructure, power, construction, and telecommunication sectors, either through loan syndication participations or bilateral arrangements. Additionally, with the Bank's commitment to strengthening its foothold in the VisMin area, CBG established a lending division based in Cebu, primarily tasked to tap and grow the underserved markets in southern Philippines.

With the continued positive macroeconomic forecast for the country, CBG is poised to further pursue financing opportunities in underpenetrated sectors and expand credit coverage in 2016.

Under the Cash Management Division, CBG launched its Corporate Internet Banking facility which serves as the Bank's corporate cash management delivery platform. The facility encompasses a suite of solutions that cover liquidity, collections, and disbursement management. Through this platform, our corporate customers can view their account balances and transaction history, download account statements, move funds from one enrolled account to another, including third-party accounts, initiate trade-related payments and collections, and perform a slew of other functionalities through the speed and convenience of a secure internet connection, anytime, anywhere.

CONSUMER LENDING DIVISION

On the back of a strengthening economy, the Bank saw its Consumer Loan portfolio forge ahead, growing by 33% to breach the PHP5 billion mark.

The desire for a better life was evident via the purchase of new cars and new homes. Filipino families both here and abroad seemed to be enjoying increasingly solid and stable earnings. Auto loans grew by 60% to PHP1.7 billion from its 2014 loan level of PHP1 billion, with significant growth coming from newly established lending centers in Cebu and Sta. Rosa, Laguna. The Bank zeroed in on locations where auto dealerships were opening new showrooms to address the increasing demand of the growing local economy.

Housing loans continued its upward trend, with a solid PHP600 million growth in loan level coming from new home purchases from the country's leading real estate developers. The Bank re-opened opportunities for families to own more than one home after recognizing the financial capability of the middle income market segment – some based in the provinces and a number based abroad.

Meanwhile, past due ratios of both auto and home improved significantly. From 8.49% past due ratio for housing, it is now down to 2.03%. Past due ratio for auto is now 2.71% from 3.21% in 2014.

We expect to see further growth in 2016 from additional provincial centers to be established in Central and Northern Luzon, Western Visayas, and Mindanao. This strategy dovetails neatly with the Bank's strength locally by offering a complete product line to all Filipinos no matter where they are.

CREDIT CARD UNIT

The year 2015 was a significant year for the Bank's credit card business, highlighted by the launch of the new MasterCard credit card product. This replaced the old card business model, where the business is under a tie-up arrangement with another local bank. The new card issuing and merchant acquiring license allowed the Bank to operate a full end-to-end card business and provide a strong support to its suite of consumer products.

The new MasterCard credit card was launched in January 2015 with three variants - Classic, Gold and Platinum - that would cater to different consumer segments. The main card features include our Rewards Plus Program, Installment Plus, and Balance Transfer Program. The new Bank of Commerce Platinum MasterCard is designed for the premium segment, offering a perpetual waiver of the annual membership fee with no pre-set conditions.

Since the product was introduced, it has already offered several product innovations in the market such as a generous rewards scheme that automatically gives 5X rewards points for selected purchases, the lowest balance transfer rate of 0.49% per month, and the longest installment term of up to 36 months. The new credit card product will soon offer more convenience features such as the chip card technology for better security, an online purchase protection facility, electronic statement, and wider payment access channels.

INTERNATIONAL OPERATIONS DIVISION

A fairly new player in the remittance business, the Bank established its OFW remittance program five years ago. The program aimed to gain entry into a mature but very competitive and dynamic remittance market and grow our natural share in the market.

The Bank formulated five key strategies to achieve these goals, namely, to increase the number of foreign tie-ups; to increase the number of distribution channels and network; to initiate system enhancements; to implement marketing and promotional activities; and to improve product offerings to Overseas Filipino Workers (OFWs) and their beneficiaries.

From 2014 onwards, the number and amount of remittances significantly increased, which solidified our presence and growth in share in the country's remittance business. Amidst challenges as a new industry player, the initial gains of the Bank's remittance program proved the efficiency of the appropriate strategies that were implemented and the Bank's unwavering determination to achieve more in this business.

As the Bank strengthened its relationships with overseas remittance partners and domestic channel partners, its IT system was enhanced to effectively handle large volumes of remittances. The current remittance system, which has passed the Vulnerability Assessment Program Testing conducted by Deloitte, is scalable and can move transactions to destinations in the most efficient and fastest way. The system ensures that remittance transactions through the Bank are safe and secure from hacking and other forms of cyberattacks. Whereas our competitors are still in the batch file process, the Bank has started offering Application Program Interface (API)-based processing and transmission of transactions. The International Operations Division (IOD) also plans to launch the full implementation of new channels and enhanced systems by second half of 2016 to better serve its growing OFW market base.

Marketing efforts through Pre-Departure Orientation Seminar (PDOS) and account opening programs generated a huge amount of OFW accounts. The Bank will further expand its remittance products to include Cardless ATM Withdrawal for OFW beneficiaries, bills payments for OFWs, domestic remittance system, seafarer's remittance system, cash anywhere remittances, cash remittances through domestic partners, "Pure Padala" remittances, top-up loading remittance, investment remittance, and internet remittance for OFWs.

IOD sees a bright future with its continuous efforts to beef up both technical capacity and marketing programs. The correlated and calibrated strengths of operations, systems, marketing, and business development will work together for the Bank to inch closer to its ultimate goal of becoming a stronger industry player in the remittance business.

TREASURY MANAGEMENT GROUP

The uncertainty during the Greek debt crisis and the possibility of their exit from the European Union (EU) put emerging markets on the defensive for most of first half of 2015.

After the Federal Reserve System (the Fed) put an end to its quantitative easing (QE) program in October 2015, markets began to anticipate the normalization of US interest rates expecting a series of policy rate hikes. This supported the USD for most part of the year while weakness was seen in most emerging market currencies.

With these factors considered, our strategy was to keep a light emerging market trading portfolio and instead utilize the liquidity of the broader US Treasuries market to generate trading income.

As concerns over Greece's debt problem ebbed, the prospect of a faltering Chinese economy, highlighted by the plunge of the Shanghai Composite Index in August, took over the headlines. Commodities markets, including oil, fell as expected demand from the world's second biggest economy dropped on probability of lackluster growth. This triggered massive risk-off trades.

The Fed acknowledged the risk to global growth of hiking its policy rate too soon. Rate hike expectations were pushed into 2016 until a spate of robust US economic data eventually pushed the Fed to hike last December. This came as a big surprise to most markets including the local currency debt market which further constrained Treasury's opportunity to generate trading income. The Peso also took a beating as slower global growth expectations affected the demand for Filipino workers abroad slicing our OFW remittances growth rate.

The strategy to stay underweight on emerging markets and shifting focus on more liquid US Treasury market proved to be correct as it shielded the Bank from incurring trading losses. While extreme volatility in all markets for 2015 may have capped the Bank's trading business, Treasury managed to pull out respectable returns both from the debt security and foreign exchange markets.

TRUST SERVICES DIVISION

The past year has been marked by significant achievements for the Trust Services Division. Asset Under Management (AUM) as of year-end 2015 amounted to PHP24.2 billion, representing a 17% growth or a PHP3.6 billion increase over the 2014 level of PHP20.6 billion. Over the past two-year horizon, this is equivalent to an impressive 300% growth in AHIT level. The consistent growth, despite market headwinds, was primarily a result of more aggressive marketing strategies, coupled with proactive and personalized client servicing that led to the expansion of the existing client base.

Contributing significantly to the increase in Trust asset level for 2015 was the 36% growth in Investment Management Accounts (IMA). This was mainly due to the rigorous involvement of the Trust Services Division in both the financial and capital markets that led to the offering of more prime debt and equity securities which afforded the clients with more attractive investment options.

To strengthen its competitiveness in the trust industry, the Trust Services Division launched its first Equity Unit Investment Trust Fund (UITF), the Diversity Dividend Focused Fund in April 2015. The Fund, which offers long-term capital growth and dividend income generation, was substantially invested in Philippine Stock Exchange-listed equity securities with a proven track record of dividend payments. With an Equity UITF augmenting the existing Fixed Income UITFs (i.e., Diversity Money Market Fund, Diversity Peso Bond Fund, and Diversity Dollar Bond Fund), the UITF client base significantly increased by 55% in 2015.

To support this substantial growth, the Trust Services Division continues to streamline operations through review of processes.

Against a backdrop of a changing business landscape in 2016, as well as the developing investment sophistication of trust clients, Trust Services Division aims to be a step ahead in meeting the growing demands of the trust business.

SUPPORT INITIATIVES

HUMAN RESOURCES

HR is the Bank's partner in putting in place organizational systems that fulfill its mission and align to its vision, values, and business goals. The HR team participates in identifying the needed organizational changes with the objective of improving employee performance and sustaining business results.

In 3Q of 2014, the Bank began instituting a culture of superior service which focuses on creating value for the customer and supporting the success of each other in the organization. Instituting this much-needed change will allow the Bank to keep its customers, meet and exceed their rising expectations, and provide an engaging work environment for the employees where people work to help each other succeed. In line with this goal, members of the Senior Management crafted a Service Promise that supports its mission, vision, and corporate values:

"With integrity and financial stability, we commit to deliver superior service to you, our discerning customers.

Through competent and warm professionals who understand, anticipate, and fulfill your needs with a sense of urgency in a safe and guest-friendly environment, we promise you a meaningful banking experience."

The Bank began an education campaign to promote the Superior Service Culture across the organization. Employees at all levels went through a workshop to help them embody the ideal attitude, service skills, and leadership principles of a Superior Service Culture-centric organization. Specific service skills that are practical, customer-focused, and engaging were introduced to the employees to improve telephone service skills, customer complaint management, and people management. Employees were also taught skills that will help create a memorable experience for the customer.

The education campaign was spearheaded by the Learning and Development Team. To date, workshops for the Bank's 1,600 employees are still ongoing.

Aside from implementing a Superior Service Culture education campaign, service level agreements (SLAs) among units of the Bank were also defined to become the basis of external customer service delivery. Following the standardization of the SLAs, HR will institute a rating process among business units that will allow employees to rate each other for their service delivery. This is expected to bring forth a culture of positive feedback and process improvement.

TALENT MANAGEMENT, LEARNING, AND DEVELOPMENT

Talents are thoroughly assessed using defined profiles and competencies. A robust recruitment and selection system is in place to support the Bank's mission of developing and enhancing its human resource. Best talents are chosen and placed in units where they will succeed. Periodic performance assessments are done so that key talents are rewarded for their performance and behavior. Opportunities for further growth in the organization are always present.

HR takes part in regular reviews of the organization to ensure that the Bank is able to address the changing customer and market needs. Functional and leadership competencies with corresponding behavioral indicators are used to evaluate employee strengths, performance gaps, and job match.

The Bank creates opportunities for high-potential individuals. A structured on-the-job training program is in place to allow these employees to enhance their technical and leadership skills and prepare them for bigger responsibilities. To date, a significant number of high-potential employees have risen from the ranks.

A sustainable succession planning program is also in place. Incumbents are regularly assessed for their readiness to assume senior management positions. Experienced and capable leaders have come from the succession talent pool of the Bank.

To further support the Bank's largest talent pool particularly in the Branch Banking Group, all Branch Heads, Marketing Officers and officer-trainees went through a six-day comprehensive training on selling standards. The six-month program covered modules on bank products and an in-depth discussion of the sales process during which standards were established at every selling phase. All these gave the Branch Marketing team a new perspective on the process of selling, transforming them from sales agents into solutions consultants and providers.

The Branch Division alongside our Area Heads went through the same program to give them insight into the selling standards that the Branch officers and staff adhere to.

COMPENSATION AND BENEFITS

The Bank adheres to a pay-for-performance compensation philosophy. Performance management is focused on key result areas where employee performance assessment is based on financial target, internal business process, customer management, and leadership behavior. The employee compensation and benefits package is periodically reviewed to ensure that it is within the banking industry standards. These are benchmarked with the identified peer banks using reputable market studies as basis.

INFORMATION TECHNOLOGY SERVICES DIVISION

The Information Technology Services Division (ITSD) provides leadership technology for the Bank, including governance, architecture, resources, and expertise in deploying modern information technologies to improve customer service efficiency. ITSD is responsible for much of the technical infrastructure that makes the Bank run - telephone, computer, network, desktop and server support, data center, website, and information security.

In 2015, ITSD continued to find innovative ways to move forward with technology while lowering overall costs. Some cost-rationalizing measures that were implemented include renegotiating maintenance contracts, creating in-house developed applications, and looking into solutions to enhance efficiencies while providing a short payback period.

While ITSD made many tactful changes during the fiscal year of 2015, the implementation of the following were noticeable both to our internal and external clients: Document Imaging Archival and Retrieval System, Printing Services Outsourcing Project (PSOP), BOC Subsidiary Ledger, Financial Reporting Package (FRP), Credit Card System, Corporate Internet Banking and Manage Engine Service Desk Ticketing System, Multi Protocol Label Switching (MPLS) implementation, and the Business Continuity Plan (BCP) Live Disaster Recovery for Core Systems (SIBS, ATM Switch, Trust iDeal, and OPICS). Business processes were improved with the implementation of Loans Automatic Debit Arrangement (ADA), Loans Post Dated Check (PDC), and Bulk Posting in SIBS. Income-generating products, such as Business Credit Line, Prepaid Mobile Reload, Electronic Gift Card, and Cash Card, were introduced to create added value for the Bank.

ITSD's roadmap continues to focus on providing top-of-the-class software and have lined up solid initiatives to support this vision, including improvement of the EMV (ATM upgrade, ATM Switch upgrade, Card re-issue), Debit and Prepaid MasterCard, Check Image Clearing System (CICS), Credit Information System Act (CISA), Data Integration Platform (DIP), RFID, and Mobile Banking.

As ITSD moves forward, the group will continue to provide the necessary support that the Bank and customers need. ITSD will continue to explore information technology as an investment, and new technologies will be evaluated to test their business and cost benefits prior adoption. ITSD is also setting its sights on eliminating potential islands for information by managing and maintaining the Bank's network as an essential communication channel for connecting users to appropriate information. The Division will persist to provide solid technology infrastructure as the fundamental building block of the Bank's IT architecture to support reliability, performance, and security of information assets.

CORPORATE SOCIAL RESPONSIBILITY

Deeply embedded in the psyche of Bank of Commerce is its unwavering commitment to improving the delivery of service to the communities. With volunteerism and community development serving as its main thrust, all its existing and future CSR efforts are heavily driven by its passion to put its talents and skills to good use and its dedication to build communities that are stronger and more self-sufficient. To ensure that CSR initiatives interconnect with these thrusts, the Bank had partnered with various organizations to come up with meaningful projects that significantly promote self-sustainability for low-income families and provide the Bank's employees the opportunity to be more involved in making positive changes happen to the communities it serves. Guided as well by its no-discrimination policy, the Bank had initiated CSR projects that encompass a diverse group of individuals from various cultural and religious backgrounds.

TEAM MALASAKIT

Hulo Elementary School, Mandaluyong City

Bank of Commerce joined San Miguel Foundation, Inc. in a series of CSR events in celebration of San Miguel Corporation's (SMC) 125th anniversary. The Bank partnered with another SMC subsidiary, SMC Global Power, to lead on-ground activities aimed to help pupils at risk of dropping out (PARDOs) from the Hulo Elementary School in Mandaluyong City. Volunteers gathered Grade 2 to 5 students to participate in fun yet educational activities like crafts making, mural painting, and skills-focused individual and group games, which were intended to inspire participants in pursuing their studies and reaching for their dreams through perseverance, teamwork, and *malasakit*.

Students participated in educational games that were redesigned to help them review and practice reading and counting, as well as enhance their basic academic skills. As an added treat, the volunteers took the participants to KidZania, a new educational theme park for kids, where they engaged in various role-playing scenarios to give them a taste of what it feels like to be responsible citizens in their dream jobs.

INTERNATIONAL CARE MINISTRIES FOUNDATION, INC.'S TRANSFORM PROGRAM

Bacolod, Dumaguete, Roxas City, and General Santos City

In line with its commitment to empowering low-income families, Bank of Commerce lent its support to the International Care Ministries Foundation, Inc.'s (ICMFI) TRANSFORM program, an intensive 16-week life-skills capacity-building course designed to meet the needs of families living in ultrapoverty. Ultrapoor Filipino households are those living on less than P24 per day, residing in inadequate, crowded shelters, and are often suffering from malnutrition and chronic hunger. The TRANSFORM program aimed to help strengthen these families by empowering them to make measureable progress in their struggle out of ultrapoverty.

Keen on supporting these initiatives, employee volunteers prepared meal packs for the beneficiaries, as well as financial grants from the Bank and the employees themselves. The financial donation helped provide more nutritious meal packs for the families and alleviate malnutrition in Bank of Commerce communities. The Bank sponsored TRANSFORM communities in Bacolod, Dumaguete, General Santos City, and Roxas City in support of ICMFI, as they spearheaded programs aimed at establishing new networks of support and social cohesion for the ultrapoor, delivering values, health, and livelihood education for the communities, and providing adequate food and nutritional supplements, medical kits, and livelihood resources for the community members' new skills.

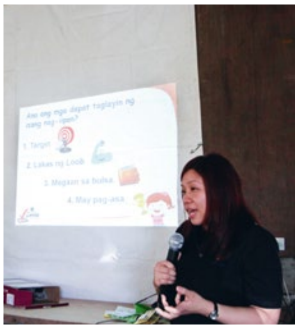
WORLD VISION'S COMMUNITY-MANAGED SAVINGS AND CREDIT ASSOCIATION

Molinete, Laurel, Batangas

Bank of Commerce set its sights on uplifting the financial literacy and savings capability of low-income families by throwing its support for World Vision's Community-Managed Savings and Credit Association (CoMSCA).

CoMSCA was established to create a local pool of capital for its members, allowing them to have easy access to useful lump sums to meet predictable expenses, reduce shocks to vulnerable livelihoods, facilitate household cash-flow management, and make short-term investments in income-generating activities.

The Bank supported a CoMSCA community at Brgy. Molinete, Laurel, Batangas, as well as sponsored a complementary program dubbed as CoMSCA Children, which was designed to help young members of the community realize the importance of managing their own savings. By partnering with World Vision for this year-long project, the Bank is committed to helping Molinete community members create more livelihood opportunities, improve their health and overall well-being, enhance their ability to send their children to school, boost their sense of ownership and accountability, develop better community leaders, and build a stronger, more disaster-resilient community.



CORPORATE GOVERNANCE

ADOPTION OF MANUAL ON CORPORATE GOVERNANCE

Bank of Commerce adopted a Manual on Corporate Governance pursuant to Securities and Exchange Commission Memorandum Circular No. 6 Series of 2009 and No. 9 Series of 2014 issued on June 22, 2009 and May 6, 2014, respectively; Bangko Sentral ng Pilipinas (BSP) Circular No. 840 issued on July 2, 2014; and Section X141 of the BSP 2014 Manual of Regulations for Banks. Said Manual is being updated every year or as often as needed when there are significant changes in laws and regulations. The Manual also incorporates the applicable provisions of the General Banking Law of 2000.

The Manual on Corporate Governance contains the principles of sound corporate governance which shall be adhered to by all directors, officers, and employees of Bank of Commerce as they discharge their respective duties and responsibilities. It emphasizes the Board of Directors' commitment to prudently managing the Bank, thereby preserving the trust and confidence reposed on it by its clients and other stakeholders. It also serves as a guide to the attainment of the Bank's mission, vision, and values.

The Corporate Governance Manual highlights the Board of Directors' duties and responsibilities to ensure that the Bank adheres to the policy on Related Party Transactions. The policy defines guidelines for managing Related Party Transactions, including managing of conflicts of interests or potential conflicts of interests to ensure that related party transactions are entered into on an arm's length basis and are consistent with the Bank and its shareholders' interests.

The Board recognizes that certain transactions involving related parties present a heightened risk of conflict of interest or the perception thereof.

BOARD GOVERNANCE

The Board of Directors (the Board) is primarily responsible for the sound governance of the Bank. Corollary to setting the policies for the accomplishment of corporate objectives, it also provides an independent check on Management. It is the Board's responsibility to foster the long-term success of the Bank and sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interest of the stockholders and other stakeholders.

BOARD OF DIRECTORS

Bank of Commerce has fifteen (15) board seats, with one (1) seat currently vacant. Of the fourteen (14) Directors, four (4) are Independent Directors. The Board of Directors is composed of individuals with diverse experiences, backgrounds, and perspectives. The membership of the Board is a combination of executive and non-executive directors, and no director or small group of directors dominates the decision-

Corporate Governance Committee (from left): Jose T. Pardo - Chairman, Marito L. Platon, Fe B. Barin, Jose C. Nograles, Mariano T. Katipunan, Jr., Cecile L. Ang, Evita C. Caballa, Victor C. Arboleda

making process. The directors possess such qualifications and stature that enable each of them to effectively participate in the deliberations of the Board.

An Independent Director is one who, apart from the required minimum shareholding, is independent of management and free from any business or other relationship which could interfere with his exercise of independent judgment when carrying out his responsibilities as a director. An Independent Director may only serve as such for a total of five (5) consecutive years, provided that the maximum term and any "cooling off" period prescribed by the Securities and Exchange Commission (SEC) shall apply. The maximum number of companies the conglomerate in which an individual can serve as an Independent Director as prescribed by the SEC is also being implemented.

A Director's office is one of trust and confidence. A Director is expected to act in the best interest of the Bank and in a manner characterized by transparency, accountability, and fairness. He should also exercise leadership, prudence, and integrity in directing the Bank toward sustained progress. The Board formulates the Bank's vision, mission, strategic objectives, policies, and procedures that guide its activities, including the means to effectively monitor Management's performance.

To effectively carry out their duties and responsibilities, the members of the Board of Directors have attended a program on corporate governance conducted by training providers duly accredited by the BSP.

BOARD COMMITTEES

The Board has constituted the following committees to guide Management in implementing sound corporate governance: Executive Committee; Audit Committee; Board Risk Oversight Committee; Corporate Governance Committee; Nominations, Compensation, and Remuneration Committee; Trust and Investment Committee; and Related Party Transactions Committee. These committees regularly hold meetings as mandated in their respective Charters.

THE CORPORATE SECRETARY

The Corporate Secretary is responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the Bank. He should be loyal to the mission, vision, and objectives of the Bank and must work fairly and objectively with the Board, Management, stockholders, and other stakeholders. He should be aware of the laws, rules, and regulations essential to the performance of his duties and responsibilities and should ensure that all the Board procedures, rules, and regulations are strictly followed by the members.

THE COMPLIANCE OFFICER

The Board appointed a Compliance Officer who reports to the Board of Directors through the Corporate Governance Committee. He should have the skills and expertise to provide appropriate guidance and direction to the Bank on the development, implementation, and maintenance of the Compliance Program. He is responsible for coordinating, monitoring, and facilitating compliance with existing laws, rules, and regulations. If any violation is found, the matter is reported to the appropriate level of management or to the Board, together with appropriate recommendations to prevent recurrence and the necessity for imposing disciplinary action, when called for.

CHIEF RISK OFFICER

The Board also appointed a Chief Risk Officer (CRO) who is independent from executive, operations and revenue-generating functions within the Bank. The CRO has direct access to the Board of Directors and reports at least monthly to the Board Risk Oversight Committee. The CRO is responsible in identifying, measuring and monitoring key risk exposures and in assessing whether decisions to accept particular risks are consistent with the risk appetite approved by the Board of Directors.

BOARD PERFORMANCE AND EVALUATION

The Board holds regular monthly meetings to enable directors to discharge their mandated duties and responsibilities. Special meetings are also held from time to time as the need arises. In addition to the Board meetings, the directors attend the meetings of their respective Board Committees.

The Board of Directors annually assesses its performance and effectiveness as a body, as well as various committees and the individual director facilitated by the Corporate Governance Committee.

REMUNERATION FOR DIRECTORS AND OFFICERS

Directors are entitled to a per diem allowance for their attendance at Board of Directors and Board Committee meetings. The Bank ensures these allowances are on par with peers. Corollary to this, the Bank utilizes data gathered from an industry survey to ensure that remuneration packages of the Bank's directors, senior executives, and officers are within industry standards. Employee performance is recognized through periodic performance assessments. This process provides the basis for salary increases and performance bonuses.

ADEQUATE AND TIMELY INFORMATION

To enable the members of the Board to properly fulfill their duties and responsibilities, they are provided with complete, adequate, and timely information on matters to be taken up in their meetings. They are given independent access to Management and the Corporate Secretary at all times to enable them to properly perform their duties and responsibilities.

FINANCIAL REPORTING, CONTROLS & AUDIT

The Board endeavors to protect shareholders' value through adequate financial controls. Thus, the Board fosters and encourages a corporate environment of strong internal controls, fiscal accountability, high ethical standards, and compliance with laws and codes of conduct. The Board also has a special duty to its shareholders to present a balanced and understandable assessment of the Bank's performance and financial position. Specifically, the Board commits to accurate Financial Reporting, Transparency, robust Internal Control, and adherence to accepted Accounting Standards and Auditor Independence.

STOCKHOLDERS' RIGHTS & PROTECTION OF MINORITY STOCKHOLDERS' INTEREST

The Board respects the rights of the stockholders as provided for in the Corporation Code and ensures that they can freely vote on all matters that require their consent or approval, exercise their preemptive right to all stock issuances of the Bank, inspect the Bank's books and records, and access information on dividends and appraisal right.

STAKEHOLDERS

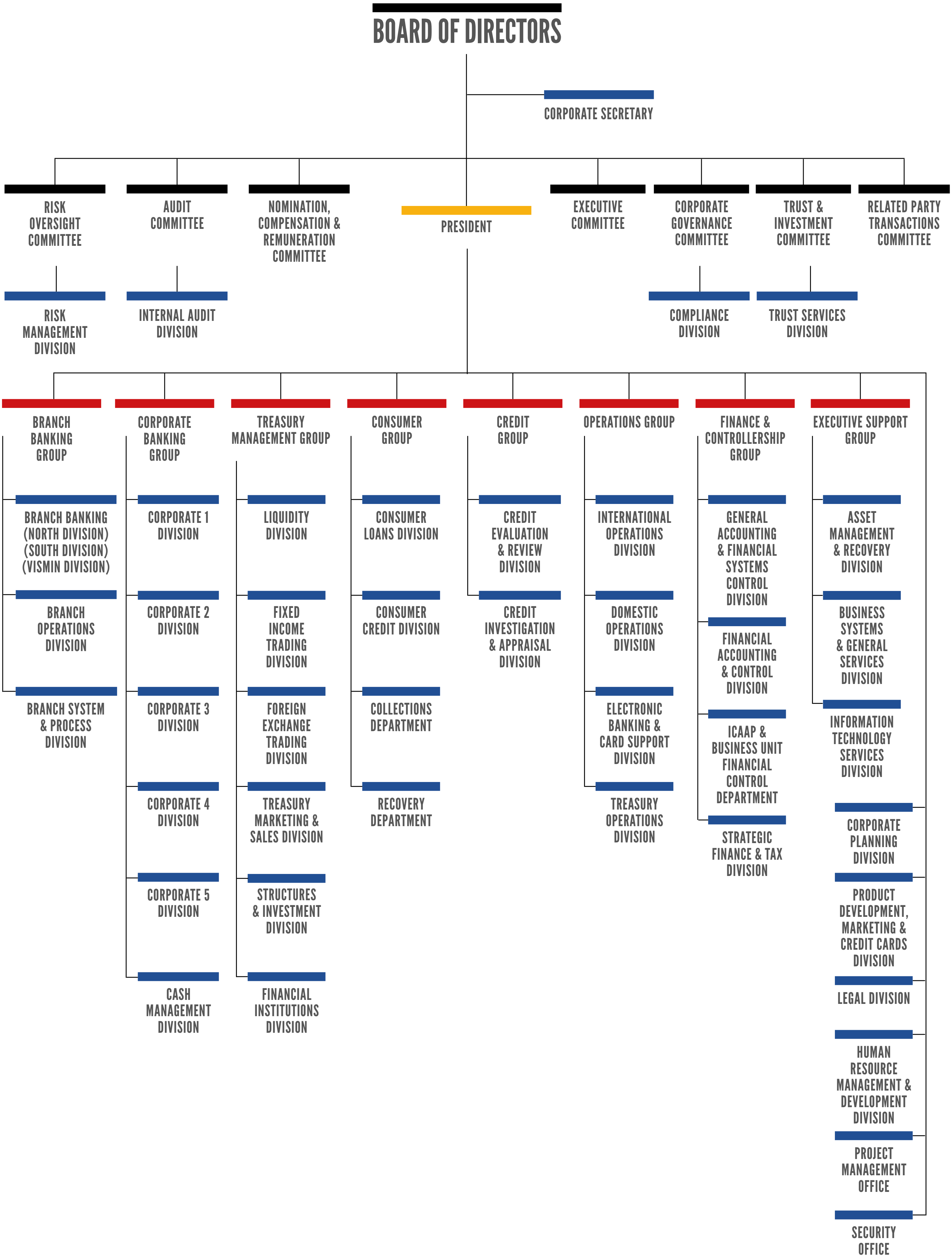
The Board has formulated policies to afford an open channel of communication for the Bank's various stakeholders, so they can express their concerns and other views to the Bank. It recognizes their rights as established by law and encourages their active participation in promoting financially sound and socially responsible endeavors.

CODE OF ETHICS AND STANDARDS

The Board upholds the Bank's Code of Conduct. It regularly reviews this Code, updates it whenever necessary, and communicates it to all the officers and employees of the Bank. It ensures that compliance with this Code is incorporated in the Bank's performance assessment system.

DISCLOSURE AND TRANSPARENCY

The Board commits that all essential and material information about the Bank which could adversely affect its viability or the interest of its stockholders and other stakeholders shall be publicly and timely disclosed. Such information shall include, among others, earnings result, acquisition or disposition of assets, off-balance sheet transactions, related party transactions, and other indirect remuneration of members of the Board and Management.


BOARD OF DIRECTORS
CORPORATE SECRETARY
RISK OVERSIGHT COMMITTEE
AUDIT COMMITTEE
NOMINATION, COMPENSATION & REMUNERATION COMMITTEE
PRESIDENT
EXECUTIVE COMMITTEE
CORPORATE GOVERNANCE COMMITTEE
TRUST & INVESTMENT COMMITTEE
RELATED PARTY TRANSACTIONS COMMITTEE
RISK MANAGEMENT DIVISION
INTERNAL AUDIT DIVISION
COMPLIANCE DIVISION
TRUST SERVICES DIVISION
BRANCH BANKING GROUP
BRANCH BANKING (NORTH DIVISION) (SOUTH DIVISION) (VISMIN DIVISION)
BRANCH OPERATIONS DIVISION
BRANCH SYSTEM & PROCESS DIVISION
CORPORATE BANKING GROUP
CORPORATE 1 DIVISION
CORPORATE 2 DIVISION
CORPORATE 3 DIVISION
CORPORATE 4 DIVISION
CORPORATE 5 DIVISION
CASH MANAGEMENT DIVISION
TREASURY MANAGEMENT GROUP
LIQUIDITY DIVISION
FIXED INCOME TRADING DIVISION
FOREIGN EXCHANGE TRADING DIVISION
TREASURY MARKETING & SALES DIVISION
STRUCTURES & INVESTMENT DIVISION
FINANCIAL INSTITUTIONS DIVISION
CONSUMER GROUP
CONSUMER LOANS DIVISION
CONSUMER CREDIT DIVISION
COLLECTIONS DEPARTMENT
RECOVERY DEPARTMENT
CREDIT GROUP
CREDIT EVALUATION & REVIEW DIVISION
CREDIT INVESTIGATION & APPRAISAL DIVISION
OPERATIONS GROUP
INTERNATIONAL OPERATIONS DIVISION
DOMESTIC OPERATIONS DIVISION
ELECTRONIC BANKING & CARD SUPPORT DIVISION
TREASURY OPERATIONS DIVISION
FINANCE & CONTROLLERSHIP GROUP
GENERAL ACCOUNTING & FINANCIAL SYSTEMS CONTROL DIVISION
FINANCIAL ACCOUNTING & CONTROL DIVISION
ICAAP & BUSINESS UNIT FINANCIAL CONTROL DEPARTMENT
STRATEGIC FINANCE & TAX DIVISION
EXECUTIVE SUPPORT GROUP
ASSET MANAGEMENT & RECOVERY DIVISION
BUSINESS SYSTEMS & GENERAL SERVICES DIVISION
INFORMATION TECHNOLOGY SERVICES DIVISION
CORPORATE PLANNING DIVISION
PRODUCT DEVELOPMENT, MARKETING & CREDIT CARDS DIVISION
LEGAL DIVISION
HUMAN RESOURCE MANAGEMENT & DEVELOPMENT DIVISION
PROJECT MANAGEMENT OFFICE
SECURITY OFFICE

BOARD OF DIRECTORS

JOSE T. PARDO
- Independent Director as Chairman, Board of Directors
- Chairman, Corporate Governance Committee
- Chairman, Trust and Investment Committee
- Chairman, Nomination, Compensation and Remuneration Committee

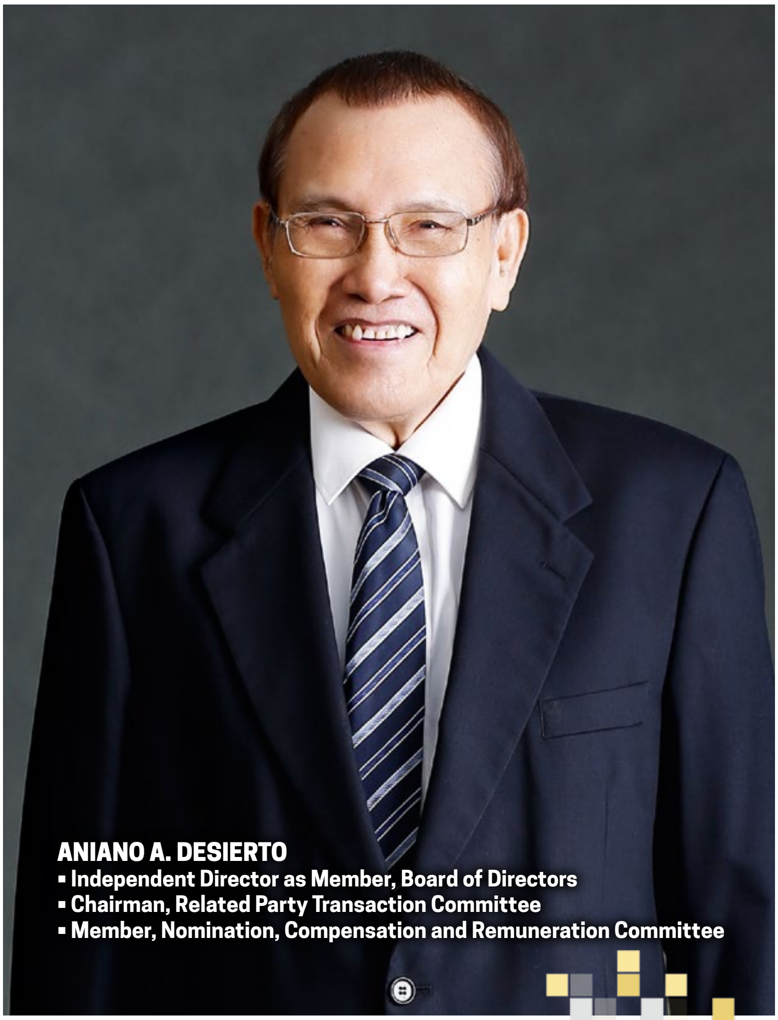
FRANCIS C. CHUA
- Vice Chairman, Board of Directors
- Chairman, Executive Committee

ROBERTO C. BENARES
- President and CEO
- Member, Board of Directors
- Vice Chairman, Executive Committee
- Chairman, Information Technology Steering Committee
- Member, Trust and Investment Committee
- Member, Board Risk Oversight Committee

BENEDICTA D. BALADAD
- Member, Board of Directors
- Member, Audit Committee
- Member, Board Risk Oversight Committee

FE B. BARIN
- Member, Board of Directors
- Member, Executive Committee
- Member, Corporate Governance Committee

RAMON A. DE LA LLANA
- Member, Board of Directors
- Member, Audit Committee
- Member, Nomination, Compensation and Remuneration Committee
- Member, Information Technology Steering Committee

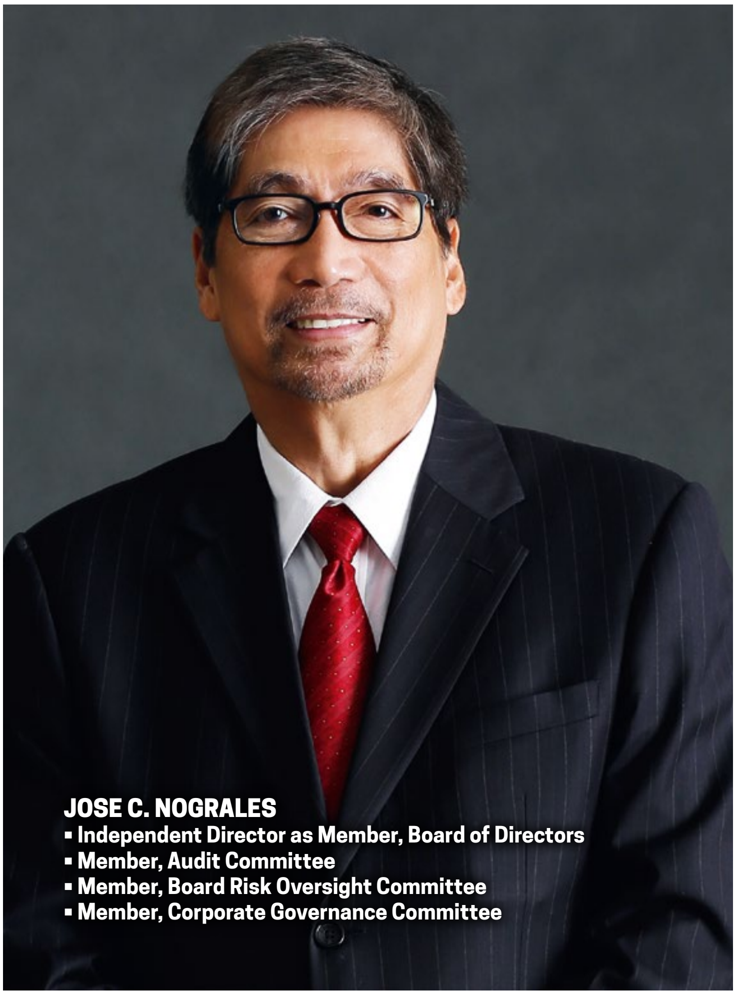


ANIANO A. DESIERTO
- Independent Director as Member, Board of Directors
- Chairman, Related Party Transaction Committee
- Member, Nomination, Compensation and Remuneration Committee

CAROLINA G. DIANGCO
- Member, Board of Directors
- Member, Executive Committee
- Member, Related Party Transaction Committee

AMOR C. ILISCUPIDEZ
- Member, Board of Directors
- Member, Executive Committee
- Member, Trust and Investment Committee
- Member, Nomination, Compensation and Remuneration Committee

MELINDA G. MANTO
- Independent Director as Member, Board of Directors
- Chairman, Audit Committee
- Member, Related Party Transaction Committee
- Member, Board Risk Oversight Committee



JOSE C. NOGRALES
- Independent Director as Member, Board of Directors
- Member, Audit Committee
- Member, Board Risk Oversight Committee
- Member, Corporate Governance Committee

MARIANO T. KATIPUNAN, JR.
- Member, Board of Directors
- Member, Audit Committee
- Member, Corporate Governance Committee

ALEXANDER R. MAGNO
- Member, Board of Directors
- Member, Trust and Investment Committee
- Member, Nomination, Compensation and Remuneration Committee

MARITO L. PLATON
- Member, Board of Directors
- Chairman, Board Risk Oversight Committee
- Member, Corporate Governance Committee
- Member, Related Party Transaction Committee

EVITA C. CABALLA
- Corporate Secretary

CECILE L. ANG
- Adviser to the Board of Directors
- Adviser, Audit Committee
- Adviser, Corporate Governance Committee

AURORA T. CALDERON
- Adviser to the Board of Directors
- Adviser, Audit Committee

FERDINAND K. CONSTANTINO
- Adviser to the Board of Directors
- Adviser, Trust and Investment Committee
- Adviser, Nomination, Compensation and Remuneration Committee

MARGARITO B. TEVES
- Adviser to the Board of Directors
- Adviser, Board Risk Oversight Committee

SENIOR EXECUTIVE TEAM

ROBERTO C. BENARES
President & Chief Executive Officer

EVP EMMANUEL G. HERBOSA
Branch Banking Group Head

EVP FELIPE MARTIN F. TIMBOL
Treasury Management Group Head

SVP Victor C. Arboleda
Chief Compliance Officer

SVP Mary Mildred A. Bernardo
Credit Group Head

SVP Joseph C. Justiniano
Consumer Group Head

SVP Reginald C. Nery
Chief Audit Executive

Not in photo: SVP Ricardo C. Coceres

SVP Ma. Elena S. Sarmiento
Chief Trust Officer

SVP Edel Mary D. Vegamora
Chief Financial Officer & Controller

SVP Edward Dennis J. Zshornack
Executive Support Group Head

FVP Aurora C. Manguerra
Corporate Planning Division Head

FVP Juan Angel L. Tinio
Chief Information Officer

FVP Jay S. Velasco
Operations Group Head

VP Jose Mari M. Zerna
Chief Risk Officer

FVP Alfredo J. Bautista
Business Systems Division Head
SET Secretariat

Carmelita R. Araneta
SET Consultant

Angelica H. Lavares
SET Consultant

MANAGEMENT COMMITTEES

ANTI-MONEY LAUNDERING COMMITTEE
Victor C. Arboleda, Chairman
Jay S. Velasco, Member
Phebe F. Cabildo, Member
Edwin T. Amahan, Member
Ma. Teresa L. Zamora, Member
Corazon T. Llagas, Member
Edward Dennis J. Zshornack, Adviser
Lilibeth L. Sansait, Secretariat

ASSET LIABILITY MANAGEMENT COMMITTEE
Roberto C. Benares, Chairman
Felipe Martin F. Timbol, Vice Chairman
Ricardo A. Coreces, Member
Emmanuel G. Herbosa, Member
Aurora C. Manguerra, Member
Edel Mary D. Vegamora, Member
Jose Mari M. Zerna, Adviser
Ma. Elena S. Sarmiento, Adviser
Alejando B. Gaerlan, Secretariat

BIDS AND AWARDS COMMITTEE
Mildred A. Bernardo, Chairman
Emmanuel G. Herbosa, Member
Edward Dennis J. Zshornack, Member
Edel Mary D. Vegamora, Member
Jay S. Velasco, Member
Ma. Ana P. Dela Paz, Secretariat

COST REDUCTION COMMITTEE
Edel Mary D. Vegamora, Chairperson
Emmanuel G. Herbosa, Vice Chairperson
Edwin T. Amahan (alternate)
Edward Dennis J. Zshornack, Member
Jay S. Velasco, Member
Aurora C. Manguerra, Member
Juan Angel L. Tinio, Member
Marie Kristin G. Mayo, Member
Celestino C. Mendiola, Adviser
John M. Iledan, Secretariat
Kristine Marie S. Francisco, Secretariat
Sheilah R. Apostol, Secretariat
Reginald C. Nery, Auditor

BUSINESS CONTINUITY MANAGEMENT COMMITTEE (CRISIS MANAGEMENT TEAM)
Roberto C. Benares, Chairman
Jay S. Velasco, Vice Chairman
Emmanuel G. Herbosa, Member
Joseph C. Justiniano, Member
Ricardo A. Coreces, Member
Mary Mildred A. Bernardo, Member
Edward Dennis J. Zshornack, Member
Felipe Martin F. Timbol, Member
Edel Mary D. Vegamora, Member
Victor C. Arboleda, Member
Jose Mari M. Zerna, Member
Reginald C. Nery, Member

BUSINESS CONTINUITY MANAGEMENT COMMITTEE (BCP TEAM)
Emmanuel G. Herbosa, Chairman
Edward Dennis J. Zshornack, Vice Chairman
Celestino C. Mendiola, Member
Edwin T. Amahan, Member
Jacqueline A. Domingo, Member
Ma. Eleanor Christina A. Castañeda, Member
Aristeo S. Maralit, Member
Paul John T. Reyes, Member
Sheila R. Apostol, Member
Michele S. Lapira, Member
Marie Kristin G. Mayo, Member
Joel O. Longalong, Member
Rommelwin A. Ardidon, Member
Juan Angel L. Tinio, Member
Orlando M. Bibares, Member
Anna Marie A. Cruz, Member
Roderick M. Martinez, Secretariat

CLEAHR (CONTROLLERSHIP, COMPLIANCE, LEGAL, AUDIT, HUMAN RESOURCES AND RISK) COMMITTEE
Jose Mari M. Zerna, Chairman
Edel Mary D. Vegamora, Member
Reginald C. Nery, Member
Victor C. Arboleda, Member
Louella P. Ira, Member
Marie Kristin G. Mayo, Member
Grace S. Cruz, Secretariat

COMMITTEE ON DISCIPLINARY ACTION
Marie Kristin G. Mayo, Chairman
Alfredo J. Bautista, Vice Chairman
Morena V. Abadilla, Member
Louella P. Ira, Member
Violeta M. Tirol, Member
Jose Mari M. Zerna, Member
Edward Dennis J. Zshornack, Member
Anna-Lyn R. Tarrayo, Secretariat
Jocelyn Isabel S. Legaspi, Secretariat

CREDIT AND COLLECTION COMMITTEE
Roberto C. Benares, Chairperson
Mildred A. Bernardo, Vice Chairperson
Edward Dennis J. Zshornack, Member
Joseph C. Justiniano, Member
Felipe Martin F. Timbol, Member
Emmanuel G. Herbosa, Member
Ricardo A. Coreces, Member
Jose Mari M. Zerna, Observer/Adviser
Ma. Ana P. Dela Paz, Observer/Adviser
Atty. Carmen Dee P. Sallan, Observer/Adviser
Victor C. Arboleda, Observer/Adviser
Joanne A. Del Rosario, Secretariat

INFORMATION TECHNOLOGY STEERING COMMITTEE
Roberto C. Benares, Chairman
Ramon A. De La Llana, Member, BOD Representative
Edward Dennis J. Zshornack, Member
Emmanuel G. Herbosa, Member
Felipe Martin F. Timbol, Member
Joseph C. Justiniano, Member
Ricardo A. Coreces, Member
Mildred A. Bernardo, Member
Edel Mary D. Vegamora, Member
Jay S. Velasco, Member
Juan Angel L. Tinio, Member
Anna Marie A. Cruz, Member
Aurora C. Manguerra, Member
Jose Mari M. Zerna, Adviser
Victor C. Arboleda, Adviser
Reginald C. Nery, Adviser
Erma D. Pagkatipunan, Secretariat

SECURITY COMMITTEE
Roberto C. Benares, Chairman
Jay S. Velasco, Vice Chairman
Januario G. Caringal, Member
Edward Dennis J. Zshornack, Member
Violeta M. Tirol, Member
Reginald C. Nery, Adviser
Jose Mari M. Zerna, Adviser
Victor C. Arboleda, Adviser
Wilson C. Vinoya, Secretariat

ICAAP (INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS) COMMITTEE
Edel Mary D. Vegamora, Chairman
Edward Dennis J. Zshornack, Vice Chairman
Emmanuel G. Herbosa, Member
Jose Mari M. Zerna, Member
Victor C. Arboleda, Member
Joseph C. Justiniano, Member
Marieta Bernadette A. Sevilla, Member
Aurora C. Manguerra, Member
Jay S. Velasco, Member
Felipe Martin F. Timbol, Member
John M. Iledan, Secretariat

OPERATIONS AND POLICIES COMMITTEE
Jay S. Velasco, Chairman
Celestino C. Mendiola, Member
Edwin T. Amahan, Member
Juan Angel L. Tinio, Member
Morena V. Abadilla, Member
Alfredo J. Bautista, Member
Edel Mary D. Vegamora, Member
Jose Mari M. Zerna, Member
Anna Marie A. Cruz, Member
Louella P. Ira, Member
Reginald C. Nery, Adviser
Victor C. Arboleda, Adviser
Veronica C. Mojares, Observer
Cenen R. Grajo, Secretariat

RISK MANAGEMENT

RISK PHILOSOPHY AND GUIDING PRINCIPLES

The Bank's goal is to generate steady returns to shareholders' capital. With this objective in mind, the Bank's business principles, strategies, and operations are designed to achieve cash flows in excess of its obligations to its fund providers and stakeholders. To realize this, the Bank takes risks that are inherent in the conduct of its commercial banking franchise. Risk taking presents opportunities to earn more-than-expected returns, provided that the risk-taking process is intentional, investigated, and controlled. The Bank's risk-taking activities are guided by the following principles:

- The Bank is in the business of taking risks.
- The Bank takes risks after a deliberate process to identify the risks, to dimension them, and to decide whether to reduce, avoid, accept, or transfer the risk.
- The Bank adopts risk management practices suited to the scope and sophistication of its business and in line with global best practices.
- The Bank's risk management is the concern of everyone.
- The Bank recognizes the independence of risk managers and risk takers from each other.

RISK MANAGEMENT OVERSIGHT

The Bank's Board of Directors (BOD), Board Risk Oversight Committee (BROC), and Risk Management Division (RSK) shall be responsible for setting the overall risk management framework and risk appetite of the Bank, including setting the "tone at the top," reviewing strategy, and approving the Bank's risk appetite. The BOD is the sole arbiter of the risks taken by the organization, with the sole discretion of determining what manner (strategic direction) and magnitude (risk appetite) of risk are suitable for the organization. The BOD develops both the strategic direction and the risk appetite with inputs provided by Management.

The Board established the BROC to oversee the promotion of a risk management culture within the Bank. The BROC is responsible for establishing and maintaining a sound risk management system. It assists the Board in its risk oversight function by:

- Identifying and evaluating risk exposures
- Developing risk management strategies
- Implementing and periodically reviewing the risk management framework
- Promoting a culture that is conscious of the importance of risk management and capital adequacy

RISK MANAGEMENT DIVISION

The Bank considers the understanding and the management of risk as a key part of its business strategy. The RSK is mandated to strengthen the Bank's risk management infrastructure to meet the requirements of its business.

The RSK implements the risk management directives of the Board and the BROC by:

- Formulating and recommending policies to manage market, liquidity, credit, operational, information technology, and trust risks arising from the business of the Bank
- Implementing the risk management framework approved by the Board of Directors
- Actively promoting a culture of risk awareness and risk management
- Coordinating with Finance and Controllership Group on the adequacy of the Bank's capital in absorbing the risks present in the Bank's business

The RSK reports to the Board through the BROC and is independent from the risk-taking business units of the Bank. Headed by the Chief Risk Officer, it comprises the following departments:

CREDIT RISK MANAGEMENT

The Credit Risk Management Department (CRM) consists of three sections, each focusing on a major segment of the credit risk management process. The CRM is responsible for developing and recommending policies that will aid in the management of credit risk present in the Bank's asset portfolios. The CRM is also in charge of developing and updating the Bank's credit risk rating systems. It is the department's duty to monitor credit risk exposures against established limits and report portfolio performance, including significant movements, asset quality, and levels of concentration to the BROC on a timely basis.

MARKET AND ASSET LIABILITY RISK MANAGEMENT

The Market and Asset Liability Risk Management Department (MRM) of the Bank oversees the identification, assessment, monitoring, and control of market and liquidity risks. It is responsible for recommending market and liquidity risk management policies which set uniform standards of risk assessment and capital adequacy. The MRM also provides Senior Management with risk assessments of Treasury-managed assets as well as the overall liquidity and repricing risk profile of the Bank's balance sheet. These are done through the use of Value-at-Risk and sensitivity metrics for the Treasury exposures and through liquidity and repricing gap analyses for the balance sheet profile. These assessments are gauged against Board-approved limits and any exceptions are analyzed by the MRM and reported to the BROC.

OPERATIONAL RISK MANAGEMENT

The Operational Risk Management Department (ORMD) monitors the comprehensiveness and effectiveness of internal control systems employed by the Bank. The ORMD oversees the performance of these systems to minimize operational risks and detect vulnerabilities while the consequences are still manageable or avoidable. The ORMD provides timely assessments of inherent general and functional risks to ensure the operational soundness of the organization as an ongoing concern. The ORMD also assists the operating units in improving the operational and system risk management capabilities through policy formulation.

INFORMATION TECHNOLOGY RISK MANAGEMENT

The Information Technology Risk Management (ITRM) focuses on the identification, monitoring, advisory, and reporting of risk issues arising from the technology transformation efforts of the Bank and the speed of innovation in products and services delivered on an information technology platform. It ensures the soundness of the organization's information technology systems by providing an effective assessment of inherent risks in its IT infrastructure. The ITRM also ensures the continuous relevance and enforcement of the Bank's IT Risk Management Framework and Information Security Policies and Procedures.

TRUST RISK MANAGEMENT

The Trust Risk Management (TRM) ensures the management of risks in the business operations of the Trust Services Division and reports to the Trust and Investment Committee (TIC) and the BROC. The TRM develops and enhances the policies and procedures in operational, credit, liquidity, and market risks in accordance with the risk management framework of the Bank to ensure that risk management practices continue to be effective and relevant to the ever-evolving trust business. It is responsible for overseeing the implementation of approved strategies and for ensuring that controls are in place relative to its business activities that will limit fiduciary risks and reinforce compliance with laws and regulations.

RISK MEASUREMENT AND REPORTING SYSTEMS

The Bank's capital adequacy is determined by measuring credit, market, and operational risk exposures using standardized or basic approaches as allowed by the Bangko Sentral ng Pilipinas (BSP). Risk exposures are measured both individually and in aggregate amounts.

Risk measurements are done by respective risk taking personnel and groups but are independently validated, analyzed, and reported by the RSK. Market risks are measured by mark-to-market analysis on portfolios. These exposures are also stress-tested under worst-case scenarios.

Quality of credit is measured via risk classifications of accounts using an Internal Credit Rating System that incorporates the BSP risk classifications of borrowing accounts. The Bank's front office recommends the credit risk rating of borrowing accounts and classifications and allowances for losses, including changes thereon, when necessary. All risk information are processed, analyzed, and consolidated for proper reporting to the BOD through the BROC, TIC, AuditCom, Senior Executive Team, and various management committees of the Bank.

Actual and estimated risk exposures and losses at Treasury, Corporate and Consumer Banking, Operations, and Branches are consolidated for regular reporting. Reports include, among others, portfolio mix, liquidity and maturity matching, interest rate matching, trading gains and losses, sensitivity and back-testing results, top borrowers, non-performing assets and loans, industry exposures, large exposures, fines and penalties, employee fraud cases, status of legal cases, service level of major information technology systems, and ATMs.

The RSK streamlined the reporting of the enterprise-wide risk profile of the Bank through the periodic presentation and publication of the Risk Dashboard. This provides a readily available snapshot that highlights risk concerns encompassing the major business risk areas: Market, Asset and Liability, Credit, Corporate, Commercial, and Consumer Lending, Operations, Information Technology, and Trust.

RISK EXPOSURES AND ASSESSMENTS
(AS REPORTED TO BANGKO SENTRAL NG PILIPINAS)

RISK-WEIGHTED ASSETS

Bank of Commerce risk-weighted assets at the end of 2015 totaled PHP66.7 billion.

RISK-WEIGHTED ASSETS	2015	2014
Credit Risk	**58,921**	**59,155**
On Balance Sheet	**56,215**	**58,881**
Commitments	**2,694**	**338**
Counterparty Risk-Weighted Assets in the Trading Book	**12**	**-**
Contingencies	**-**	**-**
Deduction: GLLP (in excess to 1% of Credit Risk-Weighted Assets)	**-**	**(64)**
Market Risk	**1,186**	**737**
Interest Rate Risk	**1,052**	**209**
Foreign Exchange Risk	**134**	**528**
Operational Risk	**6,592**	**6,195**
TOTAL RISK-WEIGHTED ASSETS	66,699	66,087

* Amount in millions

CREDIT RISK

The Bank considers credit risk as the possibility of loss arising from the customer's inability or unwillingness to settle his/her obligations on time or in full as expected or previously contracted. The Bank uses the standardized approach in calculating its credit risk-weighted exposure. The straightforward nature of this approach enables the Bank to utilize a wider differentiation of risk weights and a wider recognition of risk mitigation techniques without taking in excessive complexity in the process.

Under this approach, the Bank assigns a specific risk weight to each asset and multiplies it by the credit risk exposure. The risk weights are based on the ratings provided by an External Credit Assessment Institution recognized by the BSP. For the end of 2015, the credit risk exposures of the Bank include PHP133.0 billion in balance sheet exposure.

All exposures arising from balance sheet items are net of provisions set aside to absorb credit losses:

ON-BALANCE SHEET ITEMS ASSESSED WEIGHT FOR CREDIT RISK	2015	2014
Cash & Other Cash Items	**2,254**	**2,325**
Due From Banks (including ILR)	**58,402**	**58,443**
Securities	**23,184**	**27,198**
Sovereign	19,067	23,348
Bank	0	0
Corporate	4,117	3,850
Loan Portfolio	**40,214**	**40,208**
Loans to Corporates	34,652	35,410
Loans to Individuals - Qualified Residential REM	2,642	2,108
Loans to Individuals - Other Loans	2,854	2,081
Defaulted Exposures - Qualified Residential REM	75	161
Defaulted Exposures - Other Loans	(9)	448
Sales Contracts Receivable	**884**	**1,135**
Real & Other Properties Acquired	**2,625**	**2,387**
Other Assets	**5,449**	**6,068**
TOTAL ON-BALANCE SHEET ITEMS WEIGHTED FOR CREDIT RISK	133,010	137,764

* Amount in millions

As of December 31, 2015 and 2014, other assets have been subjected to the following deductions:

	2015	2014
Total Assets	**136,027**	**139,128**
General Loan Loss Provisions	**307**	**656**
Deductions		
Total Exposures Excluding other Assets	127,561	131,696
Financial Assets Held for Trading	1,678	353
Deferred Tax Assets	384	384
Other Intangible Assets	376	414
Other Equity Investments in Non-Financial Allied Undertakings and Non-Allied Undertakings	52	53
Significant Minority Instruments	0	0
Reciprocal Equity Investments	20	20
Accumulated Market gains /(losses) on AFS	0	0
Total Carrying Amount of Securitization Exposures	791	796
TOTAL OTHER ASSETS	5,449	6,068

* Amount in millions

The Bank considers credit risk mitigation as a means to lower its exposure to credit risk. At the end of 2015, PHP0.693 billion in credit risk exposures carried mitigation in the form of qualified guarantees from third parties. These credit risk items, with the exception of PHP0.48 million that was weighted at 20%, eventually carried zero risk weight due to the effectiveness of the mitigation.

ON-BALANCE SHEET ITEMS COVERED BY CREDIT RISK MITIGATION	2015	2014
Exposures Covered by Credit Risk Mitigation	**693**	**704**
Items Covered by Guarantee (After Risk Weighing)	**0**	**0**
Items Covered by Collateral (After Risk Weighing)	**0**	**0**

* Amount in millions

The Bank uses a credit conversion factor as prescribed by banking regulations to account for the potential credit exposure arising from having committed to extend credit to a customer. The total loan equivalent exposure of the Bank to such commitments at the end of 2015 was PHP2.7 billion.

COMMITMENTS TO LEND (LOAN EQUIVALENT EXPOSURE)	2015	2014
Direct Client Substitutes	**2,683**	**333**
Transaction Related Contingencies	**2**	**2**
Trade Related Contingencies	**9**	**3**
Other Commitments	**0**	**0**
TOTAL COMMITMENTS TO LEND (LOAN EQUIVALENT EXPOSURE)	2,694	338

* Amount in millions

Net credit risk-weighted exposure at the end of 2015 was PHP58.9 billion. This credit exposure represents 88% of total risk-weighted assets.

The on-balance sheet credit risk-weighted assets without credit mitigation was PHP56.215 billion. On-balance sheet exposure makes up 95.4% of the total credit risk-weighted assets while the remainder is mostly in off-balance sheet assets, particularly on commitments to lend.

ON-BALANCE SHEET ITEMS ASSESSED WEIGHT FOR CREDIT RISK	2015	2014
Cash & Other Cash Items	**5**	**30**
Due From Banks (including ILR)	**4,080**	**4,269**
Securities	**2,631**	**4,197**
Sovereign	1,768	3,248
Bank	0	0
Corporate	863	949
Loan Portfolio	**39,056**	**39,389**
Loans to Corporates	34,371	35,029
Loans to Individuals - Qualified Residential REM	2,182	1,770
Loans to Individuals - Other Loans	2,441	1,758
Defaulted Exposures - Qualified Residential REM	75	161
Defaulted Exposures - Other Loans	(14)	671
Sales Contracts Receivable	**1,057**	**1,348**
Real & Other Properties Acquired	**3,938**	**3,580**
Other Assets	**5,449**	**6,068**
TOTAL ON-BALANCE SHEET ITEMS WEIGHTED FOR CREDIT RISK	56,215	58,881

* Amount in millions

MARKET RISK

The Bank measures its exposure to market risk using the standardized approach under the Philippine Banking Regulation. Under this approach, the Bank applied risk weights defined by regulation to outstanding exposures to interest rates and to foreign exchange rates. Total of market risk-weighted assets at the end of 2015 was PHP1.186 billion.

MARKET RISK-WEIGHTED ASSETS	2015	2014
Interest Rate Specific to the Issuer of the Debt Instruments	**82**	**32**
Interest Rate Risk Attributable to Market Conditions	**970**	**177**
Foreign Exchange Risk	**134**	**528**
TOTAL MARKET RISK-WEIGHTED ASSETS	1,186	737

* Amount in millions

OPERATIONAL RISK

The Bank measures its exposure to operational risk using the basic indicator approach under the Philippine Banking Regulation. The approach utilizes the historical total annual gross income as the measure of risk exposure. Total of operational risk-weighted assets at the end of 2015 was PHP6.6 billion.

OPERATIONAL RISK-WEIGHTED ASSETS	2015	2014
Average Income of the Previous Three Years	**3,515**	**3,304**
Capital Charge (15 pct of Average Income)	**527**	**496**
Calibration (Capital Charge times 1.25)	**659**	**619**
TOTAL OPERATIONAL RISK-WEIGHTED ASSETS (Calibrated Capital Charge times 10)	6,592	6,195

* Amount in millions

STRUCTURED PRODUCTS

The Bank's remaining investment in structured products is the MRT Tranche 3 Note. This is booked as investments available-for-sale (AFS) and is carried at its fair value with any change to the carrying value reflected in equity as other comprehensive income. The Note regularly redeems part of its principal every month and is expected to be fully paid on February 7, 2025. The Bank's current carrying value as of December 31, 2015 was PHP791 million.

INVESTMENT IN STRUCTURED PRODUCTS IN 2015	Carrying Value of Host Instrument	Carrying Value of Embedded Derivatives	Gross Exposure	Provision for Losses	Total Carrying Value of Exposure
Credit-Linked Notes (ROP Reference)	0.000	0.000	0.000	0.000	0.000
Collateralized Debt Obligations	0.000	0.000	0.000	0.000	0.000
Other Structured Investments	790.896	0.000	790.896	0.000	790.896
TOTAL	790.896	0.000	790.896	0.000	790.896

INVESTMENT IN STRUCTURED PRODUCTS IN 2014	Carrying Value of Host Instrument	Carrying Value of Embedded Derivatives	Gross Exposure	Provision for Losses	Total Carrying Value of Exposure
Credit-Linked Notes (ROP Reference)	0.000	0.000	0.000	0.000	0.000
Collateralized Debt Obligations	317.910	0.000	317.910	(317.790)	0.000
Other Structured Investments	795.920	0.000	795.920	0.000	795.920
TOTAL	1,113,830	0.000	1,113.830	(317.790)	795.920

* Amount in millions

OTHER RISK DISCLOSURES

COMPLIANCE RISK

The Bank addresses compliance risk through strengthening its compliance infrastructure. This infrastructure requires all persons within the organization to know the laws, rules, and regulations attendant to their functions. In addition, the units in charge of compliance (legal, regulatory, tax) regularly disseminate any new issuances for the understanding of concerned units.

Compliance provides Business Operating Unit (BOU) guidance on the proper interpretation and implementation of BSP rules and regulations and other regulatory issuances. Breaches/deviations from these regulations are appropriately reported to the Management, Corporate Governance Committee, and the Board for immediate/appropriate resolution.

Monitoring and assessment are performed regularly, creating a comfort level that compliance continues to function effectively and efficiently. For this purpose, the Bank implements the three-pronged approach in Compliance Testing: the Compliance Self-Assessment performed by the units themselves; the Independent Compliance Testing, a validation exercise performed by the Compliance Division on selected units and branches; and supplemented by validation performed by Internal Audit on all units and branches included in the Annual Audit Plan.

Deputy Compliance Officers (DCO) are appointed within each of the operating and business units, following a Compliance Program that is anchored on self-assessment. Compliance Self-Assessment is done on a monthly basis using the Compliance Self-Assessment Checklist. The result of Compliance Self-Assessment is validated through the Independent Compliance Testing. Results of Compliance Self-Assessment and Independent Compliance Testing are reported to the Corporate Governance Committee and appropriate levels of Management. Follow-through is being done until findings/exceptions are fully corrected.

REPUTATIONAL RISK

Reputational risk proceeds from negative public opinion and has the potential to erode the perception of the Bank as a worthy counterparty or investment target. Negative perception on the part of customers, providers of funding, or regulators can adversely affect a bank's ability to maintain existing, or establish new, business relationships or to continue accessing sources of funding.

As the Bank presently neither uses capital market sensitive funding nor publicly listed stock, its funding cost and equity value remain shielded from reputational risk events and market discipline rendering fair estimate difficult to quantify. Nevertheless, the impact on reputation of events that may occur in the regular course of business remains a top priority of Senior Management and the Board.

LEGAL RISK

Legal risk arises from failure in the implementation of necessary control measures as well as imperfect documentation of transactions. The primary functions of the Bank's Legal Services Division (LSD) comprise of rendering legal advice and document review to ensure that relevant laws are complied with, Bank interest is duly protected, and identified risks are imparted to responsible units of the Bank. The LSD handles cases filed for and against the Bank and provides Senior Management, the Corporate Governance Committee, and the BROC regular updates on any lawsuits involving the Bank.

PENSION RISK

The Bank enlists the assistance of third-party consultants to conduct actuarial evaluation on the condition of the retirement plan once a year in order to address any erosion in the explanatory power or significance of the actuarial models used to project benefit obligations.

Valuation of both the projected benefit obligation and the present value of the plan assets assumes rates of discount, asset return, and compensation growth. These parameters may properly reflect market conditions at the time of measurement but later be non-reflective as market conditions change.

The annual third-party actuarial evaluation of the condition of the retirement plan considers the relevance of the assumption used in valuation and recommends the necessary adjustments to properly reflect the value of plan assets and liabilities. The valuation assumptions last underwent review and adjustment during the actuarial report of 2015.

MODEL RISK

The Bank contracts external entities to validate internal models used to measure market, asset and liability risks, as well as rating models for the classification of borrowers' credit risk. Results of these validation exercises are reported to Management, the BROC, and the Audit Committee.

CAPITAL MANAGEMENT

The Board recognizes that capital adequacy is the foundation of institutional strength and therefore ensures that the Bank maintains an adequate level of capital to support business growth and maintain depositor and creditor confidence.

The Bank's capital management framework is designed to ensure that regulatory requirements are met at all times cognizant of its risk profile and target ratios approved by the Board. In addition, the Bank has an Internal Capital Adequacy Assessment Process (ICAAP), which enables it to assess the capital impact of other risks apart from credit, market, and operational risks.

REGULATORY CAPITAL OVERSIGHT

The Board oversees the deployment of capital funds bankwide, ensuring that the Capital-to-Risk Weighted Assets Ratio (CAR) of the Bank meets or exceeds the minimum regulatory requirements. The following tables exhibit the Bank's capital condition as of December 31, 2015 and 2014:

AMOUNTS IN MILLIONS	2015	2014
Gross Qualifying Capital	**16,197.34**	16,277.97
Less: Regulatory Deductions	**1,622.23**	1,667.60
TOTAL QUALIFYING CAPITAL	14,575.11	14,610.37
Credit risk-weighted assets	**58,920.65**	59,155.03
Market risk-weighted assets	**1,186.31**	737.58
Operational risk-weighted assets	**6,592.28**	6,194.55
TOTAL RISK-WEIGHTED ASSETS	66,699.24	66,087.16
Capital Adequacy Ratio (CAR)		
Regulatory Minimum is 10%	**21.85**	22.11
Tier 1 Capital Ratio		
Regulatory Minimum is 7.5%	**21.36**	21.16
Common Equity Tier 1 Ratio		
Regulatory Minimum is 6%	**21.36**	21.16

Source: CAR Report as of December 31, 2015 and 2014

The above ratios represent a measure of capital supply relative to the total risk-weighted assets and are measured against regulatory minimum requirements. As of December 31, 2015 and 2014, the Bank has complied with the minimum regulatory required capital.

Tier 1 Capital comprises common stock, additional paid-in capital, and surplus. Common equity Tier 1 represents ordinary share capital, share premium, and retained earnings, including cumulative translation adjustment.

Risk-weighted assets are determined based on standardized regulatory approach for credit risk (both on-and-off balance sheet exposures) and market risk, while operational risks are based on basic indicator approach (BIA).

	2015		2014	
AMOUNTS IN MILLIONS	**Risk-Weighted Assets**	**Capital Requirements**	**Risk-Weighted Assets**	**Capital Requirements**
Credit Risk	58,920.65	5,892.06	59,155.03	5,915.50
Market Risk	1,186.31	118.63	737.58	73.76
Operational Risk	6,592.28	659.23	6,194.55	619.46
TOTAL	66,699.24	6,669.92	66,087.16	6,608.72

The following tables exhibit the Bank's capital condition as of December 31, 2015 and 2014:

AMOUNTS IN MILLIONS	2015	2014
Paid-up Common Stock	11,224.11	11,224.11
Additional Paid-in Capital	8,748.53	8,748.53
Retained Earnings/(Deficit)	(4,099.57)	(4,285.05)
Cumulative Foreign Currency Translation	(3.44)	(33.47)
Gross Common Equity Tier 1 (CET1) Capital	**15,869.64**	**15,654.12**
Appraisal Increment Reserve – Bank Premises	20.32	31.66
General Loan Loss Provision	307.38	592.19
Gross Tier 2 Capital	**327.70**	**623.85**
Less: Regulatory Adjustments to Qualifying Capital		
Deferred Tax Assets	383.56	383.56
Other Intangible Assets	375.62	414.21
Other Equity Investments in Non-Financial Allied Undertakings and Non-Allied Undertakings	51.93	53.40
Reciprocal Equity Investments	20.22	20.50
Securitization Tranches and Structured Products which are Rated Below Investment Grade or are Unrated	790.90	795.93
Total Regulatory Adjustments to Qualifying Capital	**1,622.23**	**1,667.60**
Adjusted CET1 Capital	**14,247.41**	**13,986.52**
Adjusted Tier 2 Capital	**327.70**	**623.85**
Total Qualifying Capital	**14,575.11**	**14,610.37**

Components of the regulatory qualifying capital are determined based on the BSP's regulatory accounting policy, which differs from PFRS in some respects.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) OVERSIGHT

The Board oversees the ICAAP of the Bank and recognizes the applicability of regulatory changes, such as Basel III, in its ICAAP. The ICAAP enables the Bank to properly understand the risks in its strategic plans and also to assess how much capital is required to withstand these risks. Integrating ICAAP into the organization creates a culture of collective responsibility and accountability to preserve and maximize the value of invested capital.

The Bank's management constantly monitors compliance with the minimum regulatory capital requirements as well as with internal capital requirements, as determined under its ICAAP. Management regularly reports to the Board the state of capital adequacy compliance to enable the Board to make proper decisions regarding risk and capital.

THE BOARD OF DIRECTORS AND THE BOARD RISK OVERSIGHT COMMITTEE

The Board of Directors establishes an infrastructure that provides regular reports to ensure that it has sufficient information to make proper decisions on risk and capital.

The Board of Directors established within itself a Board Risk Oversight Committee (BROC) that oversees the risk management infrastructure of the Bank, including the review of the ability of the Bank to absorb the risks where it has exposure.

ICAAP STEERING COMMITTEE

The ICAAP Steering Committee is a management committee that is responsible for overseeing the development of the assessment process and for monitoring the implementation and integration of the ICAAP. The Committee:

1. Evaluates the Bank's compliance with mandated minimum capital requirements
2. Oversees the ICAAP to ensure that it effectively approximates the Bank's ability to absorb losses
3. Formulates and recommends guidelines, policies, and procedures to enable the Bank to maintain a level of qualified capital appropriate to its risk profile
4. Evaluates the regulator's findings and recommendations regarding the ICAAP of the Bank and oversees the Bank's plans to address the regulator's findings on ICAAP

The ICAAP Report is issued by the ICAAP Steering Committee to the Board annually, conveying the results of the evaluation of the Bank's ICAAP. The 2015 ICAAP Report highlighted the sufficiency of the Bank's compliance with regulatory and internal capital requirements considering the strategic plans from 2016 through 2018, and the sufficiency of management's Capital Contingency Plan as well as Capital Buildup Program. These action plans that have been approved by the Board include:

1. Protecting (i.e., ensure the attainment) future projected profits amounting to PHP1.9 billion forecasted for the years 2016 through 2018
2. Infusing additional PHP6 billion Tier 1 capital (i.e., public disclosure of the San Miguel Corporation President), in line with the planned acquisition of a Universal Banking License
3. Raising Tier 2 capital as and when needed
4. Reducing risk-weighted assets which entails cleaning up the Bank's non-performing assets

CONSUMER PROTECTION

FINANCIAL CONSUMER PROTECTION

Bank of Commerce fully supports the vision of the Bangko Sentral ng Pilipinas (BSP) to establish an inclusive financial system in the country. Financial consumer protection is paramount to making financial inclusion a reality. In line with this, the Bank undertook the formulation and documentation of its own Financial Consumer Protection Framework along the five standards set by the BSP:

- Disclosure and Transparency
- Protection of Client Information
- Fair Treatment
- Effective Recourse
- Financial Education and Awareness

Essential to putting the Framework into action were the approval of the Bank's Financial Consumer Protection Manual by the Board of Directors, the mobilization of a multidisciplinary project team, and the creation of a new organizational unit that will orchestrate, monitor, and test the Bank's application of its financial consumer protection guidelines.

DISCLOSURE AND TRANSPARENCY

The Bank believes that the responsibility for financial consumer protection starts even before a prospective customer walks into a branch to open an account. It covers product advertisements and other marketing collaterals—in printed or unprinted form. The Bank initiated and is continually making concerted efforts to enhance its marketing collaterals and related product documentations to ensure that the most essential product information on features and pricing are visibly indicated and easy to understand, customer's obligations and effects of their nonfulfillment are clearly stated, and that recourse procedure and contact details are provided, including the disclosure that the Bank is supervised by the BSP.

PROTECTION OF CLIENT INFORMATION

The Bank is a strong advocate of modernizing banking technology. As such, the Bank believes in utilizing the latest technologies to keep customer information confidential and maintain the integrity of customer and transaction data whether they are found in the Bank's e-banking delivery channels or in internally used systems. This starts with having in place a comprehensive information security plan and policy which is integrated in the hiring process and communicated throughout the organization. The Bank is one of the few that uses multiple authentication techniques for internet banking transactions, such as complex passwords and context-specific challenge questions, and provides post-login and post-transaction notifications through e-mail and SMS. On top of these security measures, the Bank utilizes a formal, structured bidding process for accrediting third-party providers for services, such as ATM card and card personalization, in which candidates are required to demonstrate their ability to safeguard confidential information.

FAIR TREATMENT

The Bank ensures that fair treatment applies to the entire cycle of selling, availment, and after-sales. The Bank upholds professionalism in selling financial products, not only in the manner of approaching the customer but also in determining the suitability of a product to a particular customer. The Bank utilizes a structured assessment to establish the customer's risk profile and financial capacity before offering investment products.

For credit applications, be it a loan facility or a credit card, the Bank follows a certain set of guidelines to properly assess the borrower's current state of indebtedness. Once credit is granted, basic information about the credit is relayed for the customer's understanding and reference. Where appurtenant services are required, such as insurance coverage, a set of policies and procedures are followed to ensure that accredited providers are recommended to customers.

The Bank also exercises professionalism in informing customers of accounts due and has, in certain areas such as credit cards, automated the process from printing all the way to sending of secure electronic statements of account.

EFFECTIVE RECOURSE

The Bank recognizes that an effective recourse mechanism is critical in sustaining the viability and growth of a financial ecosystem. The Bank continually invests in upgrading its facilities to support the efficient receiving, monitoring, and handling of feedback or concerns from customers.

Utilizing this technology are personnel who receive regular training and updates through product orientations. A Customer Assistance Mechanism (CAM) patterned after the BSP regulation on Financial Consumer Protection was formally established in 2015. The CAM laid out clear lines of communication between the branch officer and the Customer Care Department for the proper analysis and disposition of financial consumer protection concerns.

FINANCIAL EDUCATION AND AWARENESS

As a strong supporter of technology, the Bank provides information and advice to financial consumers on how to protect their access credentials, such as PIN, user ID, and password, through its corporate public website. The Bank likewise maintains articles in the website that describe and warn about "phishing," computer viruses, and malware. Internally, the Bank regularly disseminates local and international news to employees to reinforce their knowledge about maintaining security.

The Bank also conducted certain programs to promote saving like the BSP-supported Banking Fiesta which allowed parents and kids to open savings accounts outside the Branch and learn about financial education. Branches, through sales blitz conducted at various schools, showcased to young students the importance of saving using the Bank's Junior Smart Savers Savings Account product. Likewise, representatives from the branch banking, product development, and marketing services also went on a corporate social responsibility mission in 4Q 2015 to teach underprivileged children and their parents the basics and importance of saving.

INTERNAL AUDIT DIVISION REPORT

The Internal Audit Division (IAD) is an independent unit of the Bank that conducts objective assurance and consulting activities designed to add value and help improve the operations of the Bank. The IAD evaluates the effectiveness of the Bank's risk management and governance processes and provides reasonable assurance that the Bank's key organizational and procedural controls are effective, appropriate, and complied with. The IAD periodically audits all branches, head office units, as well as systems, applications, and projects of the Bank, using a risk-based approach.

Over the years, the IAD has also significantly enhanced the use of computer-assisted audit techniques (CAATs). These tools (i.e., ACL, advanced use of MS Excel) allow the IAD to apply a more efficient, effective, and comprehensive approach in reviewing and analyzing data for selected audits and validations. Based on the results of audit and other assurance activities performed in 2015, the Chief Audit Executive declared that the Bank's system of internal controls and risk management is reasonably adequate to address financial, regulatory, compliance (including AMLA), operational, and fraud-related risks. It is worthy to note that the Bank has been consistently improving its internal controls and risk management processes to address emerging risks faced by the institution, to attune itself with new laws and regulations, and to respond to technology changes, competition and industry movements.

A structured program for continuing professional development was launched in 2015. The program was primarily intended to help the Bank's auditors further enhance their knowledge, skills, and other competencies with regard to auditing. The program is also aimed at making the auditors informed about current developments in governance, risk, information technology (IT), regulations, and control processes relevant to the Bank. Furthermore, auditors are strongly encouraged to demonstrate their proficiency by obtaining appropriate professional certification related to internal auditing, internal control, risk management, IT security, and governance.

The IAD maintains a quality assurance and improvement program that covers all aspects of the internal audit activity. The program includes, but is not limited to, an evaluation of the internal audit activity's conformance with The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (the "Standards" or ISPPIA) and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

An internal assessment is conducted annually while external assessment is conducted by a qualified external quality assessment provider at least once every five years. The results of the internal and external assessments are both presented to the Audit Committee. The Bank is undertaking these assessments to demonstrate the IAD's continuing compliance with the Standards.

In 2015, an external quality assessment of the IAD was performed by Punongbayan & Araullo to assess the internal audit activity's conformance to the IIA's ISPPIA. The IAD successfully obtained a "generally conforms" rating, the first time the Bank received this recognition from an independent and accredited assurance provider.


AUDITED FINANCIAL STATEMENTS
30,620
10,305
3,602
1,365
2015
2014
2013

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Bank of Commerce (the "Bank") is responsible for the preparation and fair presentation of the financial statements as at and for the years ended December 31, 2015 and 2014, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

R.G. Manabat & Co., the independent auditors appointed by the stockholders, has examined the financial statements of the Bank in accordance with the Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

JOSE T. PARDO
Chairman of the Board

ROBERTO C. BENARES
President and Chief Executive Officer

EDEL MARY D. VEGAMORA
Senior Vice President and Chief Financial Officer

Subscribed and sworn to before me this 1st day of April 2016, affiants exhibiting their Senior Citizen Identification No., Driver's License No., as follows:

Names	Identification Nos.	Date of Issue	Place of Issue
Jose T. Pardo	Senior Citizen ID No. 1725634	July 31, 2002	Muntinlupa City
Roberto C. Benares	Driver's License No. N14-72-006033	May 20, 2014	Makati City
Edel Mary D. Vegamora	Driver's License No. D16-90-033355	October 13, 2013	Makati City

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and the Stockholders
Bank of Commerce

Report on the Financial Statements

We have audited the accompanying financial statements of Bank of Commerce (the “Bank”), which comprise the statements of financial position as at December 31, 2015 and 2014, the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising 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 audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgement, 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 auditors consider 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 the Bank as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 37 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 supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R.G. Manabat & Co.

February 23, 2016
Makati City, Metro Manila

STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2015	2014
ASSETS			
Cash and Other Cash Items		**P2,253,631,232**	P2,325,629,766
Due from Bangko Sentral ng Pilipinas	*17*	**49,802,020,338**	49,198,853,766
Due from Other Banks		**3,287,775,229**	3,548,086,460
Interbank Loans Receivable	*7*	**5,383,605,561**	5,699,715,902
Financial Assets at Fair Value through Profit or Loss	*8, 36*	**1,701,471,773**	353,207,510
Available-for-Sale Securities - net	*9, 16, 31, 33, 36*	**23,449,649,377**	27,881,239,579
Loans and Receivables - net	*10, 16, 33, 36*	**42,441,759,594**	42,839,186,301
Non-current Assets Held for Sale	*11*	**69,246,837**	221,891,898
Investment in Associate - net	*12, 16, 33*	**49,171,240**	54,613,767
Property and Equipment - net	*13, 16*		
At cost		**466,219,049**	551,095,260
At appraised values		**1,428,032,971**	1,593,876,999
Investment Properties	*14*	**5,401,420,485**	4,572,699,473
Deferred Tax Assets - net	*30*	**212,946,195**	337,971,391
Other Assets - net	*15, 16*	**1,526,836,569**	1,532,729,652
		P137,473,786,450	P140,710,797,724
LIABILITIES AND EQUITY			
Deposit Liabilities	*17, 33*		
Demand		**P24,045,718,290**	P19,873,040,729
Savings		**79,478,816,608**	83,851,463,411
Time		**13,647,607,324**	15,861,858,501
		117,172,142,222	119,586,362,641
Bills Payable	*18*	**688,850**	827,621
Manager's Checks		**500,111,612**	544,153,494
Accrued Interest, Taxes and Other Expenses	*19, 33*	**907,868,265**	836,832,035
Other Liabilities	*20, 33*	**2,163,029,627**	2,565,865,612
Total Liabilities		**120,743,840,576**	123,534,041,403

Forward

		December 31	
	Note	**2015**	2014
Equity			
Capital stock	*22*	**P11,224,111,200**	P11,224,111,200
Paid-in surplus	*22*	**8,748,529,687**	8,748,529,687
Surplus reserves	*23*	**146,692,129**	142,211,945
Deficit		**(3,154,450,041)**	(3,600,050,151)
Revaluation increment on property and equipment	*13*	**404,436,767**	488,637,661
Net unrealized (losses) gains on available-for-sale securities	*9, 36*	**(386,556,197)**	447,296,136
Remeasurement losses on defined benefit liability	*27*	**(231,690,806)**	(254,936,675)
Share in other comprehensive loss of associate	*12*	**(1,527,794)**	(303,744)
Cumulative translation adjustment		**(19,599,071)**	(18,739,738)
Total Equity		**16,729,945,874**	17,176,756,321
		P137,473,786,450	P140,710,797,724

See Notes to the Financial Statements.

STATEMENTS OF INCOME

	Note	Years Ended December 31 2015	2014
INTEREST INCOME			
Loans and receivables	*10, 33, 36*	**P2,481,863,005**	P2,607,816,925
Debt securities	*24, 33, 36*	**1,053,353,028**	1,495,779,305
Due from Bangko Sentral ng Pilipinas and other banks	*17*	**401,202,935**	337,552,957
Interbank loans receivable	*7*	**18,233,643**	11,978,671
		3,954,652,611	4,453,127,858
INTEREST EXPENSE			
Deposit liabilities	*17, 33*	**846,492,696**	964,849,221
Bills payable	*18*	**747,274**	755,515
		847,239,970	965,604,736
NET INTEREST INCOME		**3,107,412,641**	3,487,523,122
OTHER INCOME			
Fair value gain from investment properties	*14*	**450,294,708**	343,294,404
Trading and investment securities gains - net	*26*	**366,368,135**	322,329,037
Service charges, fees and commissions	*25, 33*	**362,302,173**	262,973,952
Gains on foreclosure, and sale of property and equipment and foreclosed assets - net	*11, 13, 14, 15, 33*	**181,450,226**	216,945,380
Foreign exchange gains - net		**57,310,853**	14,142,972
Reversal of credit and impairment losses	*16*	**55,623,580**	415,626,919
Miscellaneous	*14, 28, 33*	**159,742,300**	132,334,272
		1,633,091,975	1,707,646,936
OTHER EXPENSES			
Compensation and fringe benefits	*27, 33*	**1,439,186,801**	1,367,701,128
Rent and utilities	*28*	**676,660,674**	608,752,617
Taxes and licenses	*30*	**485,661,445**	577,926,829
Depreciation and amortization	*13, 15*	**366,504,045**	248,294,281
Insurance		**200,648,829**	217,117,575
Amortization of software costs	*15*	**98,779,699**	97,346,489
Management and professional fees	*33*	**76,302,237**	81,131,853
Miscellaneous	*29*	**598,495,918**	590,408,779
		3,942,239,648	3,788,679,551
INCOME BEFORE SHARE IN NET (LOSS) INCOME OF ASSOCIATE AND INCOME TAX		**798,264,968**	1,406,490,507
SHARE IN NET (LOSS) INCOME OF ASSOCIATE	*12, 33*	**(2,087,297)**	883,229
INCOME BEFORE INCOME TAX		**796,177,671**	1,407,373,736
INCOME TAX EXPENSE	*30*	**466,384,368**	77,197,629
NET INCOME		**P329,793,303**	P1,330,176,107

See Notes to the Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31	
	Note	**2015**	2014
NET INCOME		**P329,793,303**	P1,330,176,107
OTHER COMPREHENSIVE (LOSS) INCOME			
Items that may not be reclassified to profit or loss			
Net change in revaluation increment on property and equipment	*13*	**36,086,097**	462,336,444
Remeasurement gains (losses) on defined benefit liability	*27*	**23,245,869**	(72,960,469)
		59,331,966	389,375,975
Items that may be reclassified to profit or loss			
Net change in net unrealized (loss) gain of available-for-sale securities	*9*	**(833,852,333)**	1,024,187,350
Net movement in cumulative translation adjustment		**(859,333)**	(6,655,073)
Share in other comprehensive loss of associate	*12*	**(1,224,050)**	(82,983)
		(835,935,716)	1,017,449,294
		(776,603,750)	1,406,825,269
TOTAL COMPREHENSIVE (LOSS) INCOME		**(P446,810,447)**	P2,737,001,376

See Notes to the Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

	Note	Capital Stock (Note 22)	Paid-in Surplus (Note 22)	Surplus Reserves (Note 23)	Deficit	Revaluation Increment on Property and Equipment (Note 13)	Net Unrealized (Losses) Gains on Available-for-Sale Securities (Note 9)	Remeasurement Losses on Defined Benefit Liability (Note 27)	Share in Other Comprehensive Loss of Associate (Note 12)	Cumulative Translation Adjustment	Total Equity
Balance as at December 31, 2014		**P11,224,111,200**	**P8,748,529,687**	**P142,211,945**	**(P3,600,050,151)**	**P488,637,661**	**P447,296,136**	**(P254,936,675)**	**(P303,744)**	**(P18,739,738)**	**P17,176,756,321**
Net income for the year		-	-	-	**329,793,303**	-	-	-	-	-	**329,793,303**
Other comprehensive loss:											
Net changes in fair value of available-for-sale (AFS) securities		-	-	-	-	-	**(325,722,716)**	-	-	-	**(325,722,716)**
Net changes in fair value of AFS securities taken to profit or loss		-	-	-	-	-	**(508,129,617)**	-	-	-	**(508,129,617)**
Net movement in cumulative translation adjustment		-	-	-	-	-	-	-	-	**(859,333)**	**(859,333)**
Net change in revaluation increment on property and equipment		-	-	-	-	**36,086,097**	-	-	-	-	**36,086,097**
Remeasurement gains on defined benefit liability		-	-	-	-	-	-	**23,245,869**	-	-	**23,245,869**
Share in other comprehensive loss of associate		-	-	-	-	-	-	-	**(1,224,050)**	-	**(1,224,050)**
Total comprehensive loss for the year		-	-	-	**329,793,303**	**36,086,097**	**(833,852,333)**	**23,245,869**	**(1,224,050)**	**(859,333)**	**(446,810,447)**
Appropriation of surplus for trust business	*23*	-	-	**4,480,184**	**(4,480,184)**	-	-	-	-	-	-
Transfer of revaluation increment realized through depreciation		-	-	-	**120,286,991**	**(120,286,991)**	-	-	-	-	-
		-	-	**4,480,184**	**115,806,807**	**(120,286,991)**	-	-	-	-	-
Balance as at December 31, 2015		**P11,224,111,200**	**P8,748,529,687**	**P146,692,129**	**(P3,154,450,041)**	**P404,436,767**	**(P386,556,197)**	**(P231,690,806)**	**(P1,527,794)**	**(P19,599,071)**	**P16,729,945,874**

Forward

	Note	Capital Stock (Note 22)	Paid-in Surplus (Note 22)	Surplus Reserves (Note 23)	Deficit	Revaluation Increment on Property and Equipment (Note 13)	Net Unrealized (Losses) Gains on Available-for-Sale Securities (Note 9)	Remeasurement Losses on Defined Benefit Liability (Note 27)	Share in Other Comprehensive Loss of Associate (Note 12)	Cumulative Translation Adjustment	Total Equity
Balance as at December 31, 2013		P11,224,111,200	P8,748,529,687	P137,798,908	(P4,932,158,043)	P32,646,039	(P576,891,214)	(P181,976,206)	(P220,761)	(P12,084,665)	P14,439,754,945
Net income for the year		-	-	-	1,330,176,107	-	-	-	-	-	1,330,176,107
Other comprehensive income:											
Net changes in fair value of available-for-sale (AFS) securities		-	-	-	-	-	1,214,687,688	-	-	-	1,214,687,688
Net changes in fair value of AFS securities taken to profit or loss		-	-	-	-	-	(190,500,338)	-	-	-	(190,500,338)
Net movement in cumulative translation adjustment		-	-	-	-	-	-	-	-	(6,655,073)	(6,655,073)
Net change in revaluation increment on property and equipment		-	-	-	-	462,336,444	-	-	-	-	462,336,444
Remeasurement losses on defined benefit liability		-	-	-	-	-	-	(72,960,469)	-	-	(72,960,469)
Share in other comprehensive loss of associate		-	-	-	-	-	-	-	(82,983)	-	(82,983)
Total comprehensive income for the year		-	-	-	1,330,176,107	462,336,444	1,024,187,350	(72,960,469)	(82,983)	(6,655,073)	2,737,001,376
Appropriation of surplus for trust business	*23*	-	-	4,413,037	(4,413,037)	-	-	-	-	-	-
Transfer of revaluation increment realized through depreciation		-	-	-	6,344,822	(6,344,822)	-	-	-	-	-
		-	-	4,413,037	1,931,785	(6,344,822)	-	-	-	-	-
Balance as at December 31, 2014		P11,224,111,200	P8,748,529,687	P142,211,945	(P3,600,050,151)	P488,637,661	P447,296,136	(P254,936,675)	(P303,744)	(P18,739,738)	P17,176,756,321

See Notes to the Financial Statements.

STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P796,177,671**	P1,407,373,736
Adjustments for:			
Gain on sale of available-for-sale securities	*9, 26*	**(508,129,617)**	(190,500,338)
Fair value gain from investment properties	*14*	**(450,294,708)**	(343,294,404)
Depreciation and amortization	*13, 15*	**366,504,045**	248,294,281
Gain on foreclosure, and sale of property and equipment and foreclosed assets - net	*11, 13, 14, 15*	**(181,450,226)**	(216,945,380)
Amortization of software costs	*15*	**98,779,699**	97,346,489
Unrealized loss (gain) on financial assets and liabilities at fair value through profit or loss	*26*	**72,505,565**	(5,219,373)
Reversal of credit and impairment losses	*16*	**(55,623,580)**	(415,626,919)
Share in net loss (income) of associate	*12*	**2,087,297**	(883,229)
Loss on sale of held-to-maturity investments	*9, 26*	**-**	3,739,635
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Financial assets at fair value through profit or loss		**(1,420,769,828)**	81,018,647
Loans and receivables		**311,230,210**	3,324,818,689
Other assets		**(35,291,366)**	(91,594,116)
Increase (decrease) in:			
Deposit liabilities		**(2,414,220,419)**	19,295,815,316
Manager's checks		**(44,041,882)**	238,741,206
Accrued interest, taxes and other expenses		**95,388,219**	(1,239,639)
Other liabilities		**(383,686,610)**	(197,835,789)
Net cash (absorbed by) generated from operations		**(3,750,835,530)**	23,234,008,812
Income taxes paid		**(328,267,461)**	(365,390,274)
Net cash (used in) provided by operating activities		**(4,079,102,991)**	22,868,618,538
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale or redemption of:			
Available-for-sale securities		**123,016,447,085**	91,541,154,539
Property and equipment		**51,272,795**	99,724,661
Investment properties		**48,207,848**	90,967,968
Non-current assets held for sale		**31,200,000**	106,972,000
Held-to-maturity investments	*9*	**-**	246,186,128
Additions to:			
Available-for-sale securities		**(118,910,579,599)**	(84,551,261,057)
Property and equipment	*13*	**(140,781,776)**	(129,315,857)
Deferred software costs	*15*	**(60,191,661)**	(79,417,850)
Investment properties		**(668,093)**	(144,225,924)
Non-current assets held for sale	*11*	**(59,038)**	-
Held-to-maturity investments	*9*	**-**	(7,225,801,102)
Net cash provided by (used in) investing activities		**4,034,847,561**	(45,016,494)

Forward

		Years Ended December 31	
	Note	**2015**	2014
CASH FLOWS FROM A FINANCING ACTIVITY			
Bills payable	*18*	**(P138,771)**	(P270,460,255)
Net cash used in a financing activity		**(138,771)**	(270,460,255)
EFFECT OF EXCHANGE RATE DIFFERENCES		**(859,333)**	(6,655,073)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(45,253,534)**	22,546,486,716
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**2,325,629,766**	1,671,990,481
Due from Bangko Sentral ng Pilipinas		**49,198,853,766**	30,317,427,176
Due from other banks		**3,548,086,460**	3,873,689,285
Interbank loans receivable		**5,699,715,902**	2,362,692,236
		60,772,285,894	38,225,799,178
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items		**2,253,631,232**	2,325,629,766
Due from Bangko Sentral ng Pilipinas		**49,802,020,338**	49,198,853,766
Due from other banks		**3,287,775,229**	3,548,086,460
Interbank loans receivable		**5,383,605,561**	5,699,715,902
		P60,727,032,360	P60,772,285,894
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received		**P4,080,765,769**	P4,553,373,562
Interest paid		**827,107,444**	965,039,438

See Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

Bank of Commerce (the "Bank") is a domestic corporation registered with the Philippine Securities and Exchange Commission (SEC) on December 16, 1963. It provides commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, foreign exchange, and trust services.

The Bank's original authority for its banking license was approved under Monetary Board (MB) Resolution No. 1045 dated October 4, 1963 as Overseas Bank of Manila. The Bank received its Foreign Currency Deposit Unit (the "FCDU") license and launched its FCDU operations on September 23, 1983. The Bank received its Expanded FCDU license on March 10, 2010. The Bank was renamed Commercial Bank of Manila on January 8, 1981, further renamed Boston Bank of the Philippines on July 27, 1988, and finally, Bank of Commerce on November 9, 1991.

On July 13, 2010, the Bangko Sentral ng Pilipinas (BSP) approved the Bank's proposed change of location of its head office and the conversion of its former main office branch as Ayala Avenue Branch and San Miguel Properties Centre Branch to Main Office Branch. Subsequently on February 25, 2011, upon receipt of the related SEC approval of its amended Articles of Incorporation and amended By-laws reflecting this change, the Bank's principal place of business was changed from Phil. First Building, 6764 Ayala Avenue, Makati City to San Miguel Properties Centre, No. 7, St. Francis Street, Mandaluyong City. The Bank has a total of 125 branches nationwide as at December 31, 2015 and 2014.

On January 17, 2012, the Board of Directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate life of the Bank, before its expiry date of December 16, 2013, for another 50 years or up to December 16, 2063. The said Amended Articles of Incorporation of the Bank were approved by the SEC on January 16, 2013.

The financial statements of the Bank as at and for the year ended December 31, 2015 were approved and authorized for issue by the BOD on February 23, 2016.

2. Basis of Preparation

Statement of Compliance

The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRSs which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations.

Basis of Measurement
The financial statements of the Bank have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit or loss (FVPL), available-for-sale (AFS) securities and investment properties, which are carried at fair value, net retirement liability which is measured at present value of the defined benefit obligation less fair value of plan assets and land and buildings, which are carried at revalued amount.

Functional and Presentation Currency
The accompanying financial statements include accounts maintained in the Regular Banking Unit (the "RBU") and the FCDU. The functional currency of RBU and FCDU is Philippine Peso (PHP) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated to their equivalents in PHP (see Note 3, *Foreign Currency Transactions*). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

All values are rounded to the nearest peso unless otherwise stated.

Presentation of Financial Statements
The Bank presents its statements of financial position broadly in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 21.

3. Summary of Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements except for the changes in accounting policies as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Bank has adopted the following amendments to standards starting January 1, 2015 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Bank's financial statements.

- *Annual Improvements to PFRSs: 2010 - 2012 and 2011 - 2013 Cycles* - Amendments were made to a total of nine (9) standards, with changes made to the standards on business combinations and fair value measurement in both cycles. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted, in which case the related consequential amendments to other PFRSs would also apply. Special transitional requirements have been set for amendments to the following standards: PFRS 2, *Share-based Payment*, PAS 16, *Property, Plant and Equipment*, PAS 38, *Intangible Assets* and PAS 40, *Investment Property*. The following are the said improvements or amendments to PFRSs, which may be applicable to the Bank:

    - *Scope of portfolio exception (Amendment to PFRS 13, Fair Value Measurement).* The scope of the PFRS 13 portfolio exception - whereby entities are exempted from measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis if certain conditions are met - has been aligned with the scope of PAS 39, *Financial Instruments: Recognition* and *Measurement* and PFRS 9, *Financial Instruments*.

PFRS 13 has been amended to clarify that the portfolio exception potentially applies to contracts in the scope of PAS 39 and PFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under PAS 32, *Financial Instruments: Presentation* - e.g., certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument.

- *Restatement of accumulated depreciation (amortization) on revaluation* (*Amendments to PAS 16 and PAS 38*). The amendments clarify the requirements of the revaluation model in PAS 16 and PAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset. PAS 16 and PAS 38 have been amended to clarify that, at the date of revaluation: the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset - e.g., restated in proportion to the change in the carrying amount or by reference to observable market data; and the accumulated depreciation (amortization) is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or the accumulated depreciation (amortization) is eliminated against the gross carrying amount of the asset.

- *Definition of 'related party' (Amendment to PAS 24, Related Party Disclosures).* The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing the KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 - e.g., loans.

Foreign Currency Transactions

Foreign exchange differences arising from foreign currency transactions and re-translations of foreign currency-denominated assets and liabilities are credited to or charged as part of "Foreign exchange gains - net" account in the statements of income, except for differences arising from the re-translations of AFS equity securities which are recognized directly in "Net change in net unrealized (loss) gain of AFS securities" in other comprehensive income (OCI).

The books of accounts of the FCDU of the Bank are maintained in USD with various transactions in foreign currencies. The foreign currency-denominated income and expenses in the books of accounts are translated into their USD equivalent based on the exchange rates prevailing at the time of transaction. The foreign currency-denominated assets and liabilities at the reporting dates are translated into USD using the Philippine Dealing System (PDS) closing rate at the reporting date.

For reporting purposes, the FCDU income and expenses are translated to their equivalent in PHP based on the PDS weighted average rate (PDSWAR) for the reporting period. The assets and liabilities of the FCDU at the reporting date are translated into PHP using PDS closing rate at the reporting date. The foreign currency-denominated monetary assets and liabilities in the RBU are translated in PHP based on the PDS closing rate prevailing at end of the year and foreign currency-denominated income and expenses, at the exchange rates prevailing at transaction dates. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Thus, in accordance with the Manual of Regulations for Banks (MORB), BSP Circular No. 691 issued on June 23, 2010 and PAS 21, *The Effects of Changes in Foreign Exchange Rates*, the exchange differences arising from translation (i.e. PDSWAR vs. PDS closing rate) of FCDU accounts to PHP are taken directly to OCI under "Net movement in cumulative translation adjustment" in the statements of comprehensive income. Exchange differences arising from restatements of foreign currency-denominated assets and liabilities of the RBU are credited to or charged against operations in the year in which the rates change.

As at December 31, 2015 and 2014, cumulative translation adjustment of P19.6 million and P18.7 million, respectively, was recognized in the statements of financial position and statements of changes in equity.

Financial Instruments

Date of Recognition

Regular way purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Settlement date accounting refers to: (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Bank. Deposit liabilities, bills payable and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

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

Initial Recognition of Financial Instruments

All financial instruments, whether financial assets or financial liabilities, are initially measured at fair value. Except for financial assets and financial liabilities valued at FVPL, initial measurement includes transaction costs. The Bank classifies its financial assets into financial assets at FVPL, AFS securities, held-to-maturity (HTM) investments and loans and receivables, while financial liabilities are classified as financial liabilities at FVPL and other financial liabilities. The category depends on the purpose for which the financial instruments were acquired and whether they are quoted in an active market and for HTM investments, the ability and intention to hold the investment until maturity. Management determines the category of its financial instruments at initial recognition and where allowed and appropriate, re-evaluates such designation at every reporting date.

Reclassification of Financial Assets
A financial asset held for trading is reclassified out of the FVPL category when the following conditions are met:

- The financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and

- There is a rare circumstance affecting the assumptions made by the Bank in classifying the financial asset as part of FVPL.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss previously recognized in the statements of income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

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

Financial Assets and Financial Liabilities at FVPL
Financial assets and financial liabilities at FVPL include financial assets held for trading purposes, derivative instruments and financial assets or liabilities designated at FVPL upon initial recognition.

Held for Trading
Trading assets and trading liabilities are initially recognized and subsequently measured at fair value in the statements of financial position, with transaction costs recognized in the statements of income.

Trading assets and trading liabilities are those that the Bank acquire or incur principally for the purpose of selling or repurchasing in the near term, or hold as part of a portfolio that is managed together for short-term profit or position-taking.

Trading assets and trading liabilities are not reclassified subsequent to their initial recognition, except non-derivative trading assets, other than those designated at FVPL if they are no longer held for the purpose of being sold or repurchased in the near term.

Derivatives Recorded at FVPL
The Bank is a counterparty to derivative contracts, such as currency forwards, currency swaps, interest rate swaps and warrants. These derivatives are entered into as a service to customers and as a means of reducing or managing and hedging the Bank's respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date when the derivative contracts are entered into and are subsequently remeasured at fair value. Any changes in the fair value of derivatives (except those accounted for as accounting hedges) are recognized as part of "Trading and investment securities gains - net" account in the statements of income. Derivatives are carried as derivative financial assets when the fair value is positive and as derivative financial liabilities when the fair value is negative.

For hedge accounting purposes, hedges are classified primarily as either: a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge). In 2015 and 2014, the Bank did not apply hedge accounting treatment for any of its derivatives transactions.

Embedded derivatives that are bifurcated from the host contracts are also carried at fair value with fair value changes being reported in the statements of income when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL, when their economic risks and characteristics are not closely related to those of their respective host contracts, and when a separate instrument with the same terms as the embedded derivatives would meet the definition of a derivative.

The Bank assesses whether embedded derivatives are required to be separated from the host contracts when the Bank first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

As at December 31, 2015 and 2014, there are no outstanding embedded derivatives under the "Financial assets and financial liabilities at FVPL" in the statements of financial position (see Notes 8 and 36).

Financial Assets or Financial Liabilities Designated at FVPL
Financial assets or financial liabilities may be designated at FVPL on initial recognition when any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities designated at FVPL are initially recorded in the statements of financial position at fair value. Changes in fair value are recognized as part of "Trading and investment securities gains - net" account in the statements of income. Interest earned or incurred is recorded as interest income or interest expense, respectively, while dividend income is recorded under "Miscellaneous income" account in the statements of income when the right to receive payment has been established.

There are no designated financial assets and financial liabilities at FVPL as at December 31, 2015 and 2014.

HTM 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. Where the Bank reclassifies or sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. The Bank would then be unable to categorize financial instruments as HTM investments for the next two (2) years.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the investment's effective interest rate (EIR). The amortization is included under "Interest income on debt securities" account in the statements of income. Gains and losses are recognized in the statements of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized under "Reversal of credit and impairment losses" account in the statements of income. The effects of revaluing foreign currency-denominated HTM investments are recognized in the statements of income.

As discussed in Note 9, the Bank has tainted its HTM investments in 2014. The tainting rule under PAS 39 prohibits the Bank from classifying securities as HTM investments in the 2 succeeding financial years: 2015 and 2016.

Loans and Receivables
Loans and receivables include cash and other cash items (COCI), amounts due from BSP and other banks, interbank loans receivable, loans and receivables from customers, sales contracts receivable, unquoted debt securities, accrued interest receivable, accounts receivable and other receivables. These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified under any other financial asset category.

After initial measurement, loans are subsequently measured at amortized cost using the effective interest method, less any allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is recognized in the statements of income as interest income.

When the estimated cash flows from the financial assets are revised, the carrying amount of the financial asset shall be adjusted to reflect the actual and revised estimated cash flows. The carrying amount shall be computed as the present value of estimated future cash flows at the financial instrument's original EIR, or, when applicable, the revised EIR. Any difference shall be recognized as "Reversal of credit and impairment losses" in the statements of income.

Where there is a subsequent increase in the estimate of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the asset at the date of the change in estimate.

AFS Securities
AFS securities are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and may be held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS securities include equity securities, money market instruments, government securities (GS) and private debt securities.

After initial measurement, AFS securities are subsequently measured at fair value. The effective yield component of AFS debt securities is reported in the statements of income. The impact of revaluation on foreign currency-denominated AFS debt securities is also reported in the statements of income. The unrealized gains and losses arising from the fair valuation of AFS securities are excluded, net of tax, from statements of income and reported as OCI and presented under "Net unrealized (losses) gains on AFS securities" account in the equity section of the statements of financial position.

When the AFS securities are disposed, the cumulative gains or losses previously recognized in equity is recognized in the period of disposal under "Trading and investment securities gain - net" account in the statements of income. Where the Bank holds more than one (1) investment in the same security, these are deemed to be disposed on a first-in first-out basis. Interest earned on holding AFS debt securities are reported as part of "Interest income on debt securities" in the statements of income using the effective interest method. Dividends earned on holding AFS equity securities are recognized in the statements of income as "Miscellaneous income" when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as "Reversal of credit and impairment losses" in the statements of income.

Investments in unquoted equity instruments whose fair value cannot be reliably measured are carried at cost less impairment loss.

Other Financial Liabilities
Issued financial instruments or their components, are classified as liabilities under appropriate financial liability accounts, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity securities. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, borrowed funds and similar financial liabilities not qualified as and not designated as FVPL, are subsequently measured at cost or amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. This accounting policy relates to all liabilities in the statements of financial position, except for nonfinancial liabilities included under "Accrued interest, taxes and other expenses" and "Other liabilities" accounts which are due and expected to be paid within 1 year from reporting date.

Derecognition of Financial Assets and Financial Liabilities
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;

- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Bank has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of ownership of the asset; or (b) has neither transferred nor retained the risks and rewards of ownership of the asset but has transferred the control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership 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. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Securities sold under repurchase agreements at a specified future date ("repos") are not derecognized from the statements of financial position. The corresponding cash received, including accrued interest, is recognized in the statements of financial position as liability of the Bank, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ("reverse repos") are not recognized in the statements of financial position. The corresponding cash paid, including accrued interest, is recognized in the statements of financial position as securities purchased under resale agreements, and is considered as a loan to the counterparty. The Bank is not permitted to sell or re-pledge the collateral in the absence of default by the owner of the collateral. The difference between the purchase price and resale price is treated as interest income in the statements of income and is amortized over the life of the agreement using the effective interest method.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another financial liability 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. The difference in the respective carrying amounts is recognized in the statements of income.

Impairment of Financial Assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of 1 or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost
For financial assets carried at amortized cost, which include HTM investments and loans and receivables, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized are not included in a collective assessment for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original EIR of the financial asset (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against current operations. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables and HTM investments, together with the associated allowance accounts, are written-off when there is no realistic prospect of future recovery and all collateral has been realized.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized such as an improvement in the debtor's credit rating, the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized under "Reversal of credit and impairment losses" in the statements of income. Meanwhile, recoveries from defaulted customers are charged-off against "Allowance for credit and impairment losses" under "Loans and receivables - net" in the statements of financial position.

If a future write-off is later recovered due to subsequent collections from the defaulted customer, any amounts formerly charged against operations are credited to "Recovery for charged-off asset" included under "Miscellaneous income" account in the statements of income.

The estimated future cash flows are discounted at the financial asset's original EIR. If a financial asset carried at amortized cost has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period in which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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

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

In case of equity securities classified as AFS securities, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is objective evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the equity securities previously recognized in the statements of income - is taken out from "Net unrealized (losses) gains on AFS securities" under equity and recognized in the statements of income for the period. Impairment losses recognized in the statements of income on equity securities classified as AFS are not reversed through the statements of income but recognized directly in equity as part of OCI.

If there is objective evidence that an impairment loss on financial assets carried at cost had been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

In the case of debt instruments classified as AFS securities, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recognized in the statements of income as part of interest income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statements of income for the period.

Fair Value Measurement
The Bank measures financial instruments, such as, financial assets and financial liabilities at FVPL, AFS securities, and non-financial assets such as investment properties, property and equipment, and net retirement liability which is measured at present value of the defined benefit obligation less fair value of plan assets, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 6.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The Bank determines the policies and procedures for recurring fair value measurement, such as financial assets at FVPL, investment properties and land and building.

External valuers are involved for valuation of significant assets, such as investment properties and property and equipment. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained in Note 6.

'Day 1' Difference
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) as part of current operations in the period when the asset is acquired or the liability is incurred. In cases where the transaction price used is based on inputs which are not observable, the difference between the transaction price and model value is only recognized as part of current operations in the period when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Offsetting
Financial assets and financial liabilities are offset with the net amount reported in the statements of financial position, 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, as the related assets and liabilities are presented gross in the statements of financial position.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include COCI, amounts due from BSP and other banks and interbank loans receivable with original maturities of three (3) months or less from dates of placement and that are subject to insignificant risk of changes in value.

COCI consist of cash on hand and checks and other cash items. Cash on hand refers to the total amount of cash in the Bank's vault in the form of notes and coins under the custody of the cashier/cash custodian or treasurer, including notes in the possession of tellers and those kept in automated teller machines (ATMs).

Financial Guarantees

In the ordinary course of business, the Bank issues financial guarantees in favor of other parties. Financial guarantees are initially recognized in the financial statements at fair value, and the initial fair value is amortized over the life of the financial guarantee. The guaranteed liability is subsequently carried at the higher of the amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable).

Investment in Associate

An associate is an entity over which the Bank has significant influence but not control. This is the rebuttable presumption in case the equity interest of the Bank in an entity is between 20.0% and 50.0%. The Bank's equity investment in BIC Management and Consultancy, Inc. (formerly Bancommerce Investment Corporation) (BIC) represents 24.25% of BIC's capital stock. Accordingly, the Bank's equity investment in BIC is treated as an investment in an associate accounted for under the equity method of accounting.

Under the equity method, an investment in an associate is carried in the statements of financial position at cost plus post-acquisition changes in the Bank's share in the net assets of the associate. Goodwill relating to an associate is included in the carrying value of the investment and is not amortized. The Bank's share in an associate's post-acquisition profits or losses is recognized in the statements of income, and its share of post-acquisition movements in the associate's equity reserves is recognized directly in equity. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses resulting from transactions between the Bank and an associate are eliminated to the extent of the Bank's interest in the associate.

The reporting period of BIC is on a calendar year basis. BIC's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Property and Equipment

Land and building are stated at appraised values less any subsequent accumulated depreciation on buildings and any subsequent impairment in value recognized after the date of revaluation. Revaluations are made with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The fair value of the revalued asset is usually determined every 3 or five (5) years.

If the carrying amount of land and building is increased as a result of a revaluation, the increase shall be recognized as OCI and accumulated in equity under "Revaluation increment on property and equipment" account in the statements of financial position. However, the increase shall be recognized in the statements of income to the extent that it reverses a revaluation decrease of the same asset previously recognized in the statements of income.

If the carrying amount of land and building is decreased as a result of a revaluation, the decrease shall be recognized in the statements of income. However, the decrease shall be recognized in OCI to the extent of any credit balance existing in the revaluation increment on property and equipment. The decrease recognized in OCI reduces the amount accumulated in equity under "Revaluation increment on property and equipment" account in the statements of financial position.

An annual transfer from asset revaluation increment on property and equipment is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred directly to "Deficit" account in the statements of financial position.

Leasehold improvements and furniture, fixtures and equipment are carried at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchases taxes after deducting trade discounts and rebates, and any cost that are directly attributable to bringing the property and equipment to its location and condition necessary for it to be capable of operating in the manner intended by management. Expenditures incurred after the property and equipment have been put to operation, such as repairs and maintenance, are normally charged against operations in the period in which the cost are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in the increase in the future economic benefits to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the estimated useful life of the improvements or the terms of the related lease, whichever is shorter.

Estimated useful lives of property and equipment are as follows:

	Years
Buildings	50
Furniture, fixtures and equipment	3 - 7
Leasehold improvements	5 - 15

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statements of income in the period the asset is derecognized.

The asset's residual values, useful lives and methods of depreciation and amortization are reviewed, and adjusted if appropriate, at each reporting date.

Investment Properties

Investment properties are composed of assets acquired from foreclosure or dacion en pago, and are initially measured at cost including transaction costs. An investment property acquired through an exchange transaction is initially recognized at fair value of the asset acquired unless the fair value of each asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under investment properties from foreclosure date.

Subsequent to initial recognition, investment properties are carried at fair value, which reflects the prevailing market conditions at the reporting date. Gains or losses resulting from the changes in the fair values of investment properties are recognized under "Fair value gain from investment properties" account in the statements of income in the period in which they arise. Fair value is determined by reference to market-based evidences. The valuations performed by the appraisers are based on active market prices, adjusted for any difference in the nature, location or condition of the specific property.

Repairs and maintenance costs relating to investment properties are normally charged to statements of income in the period in which the costs are incurred.

An investment property is derecognized when it has either been disposed of or when it is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the derecognition of an investment property is recognized in the statements of income under "Gains on foreclosure, and sale of property and equipment and foreclosed assets - net" account in the period of derecognition.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation or the start of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the start of owner-occupation or of development with a view to sell.

Other Properties Acquired

Other properties acquired, included under "Other assets" account in the statements of financial position, include chattel mortgage properties acquired in settlement of loan receivables. The Bank applies the cost model in accounting for these assets. Under the cost model, these assets are carried at cost, which is the fair value at acquisition date, less accumulated depreciation and any impairment in value.

Depreciation is computed on a straight-line basis over the estimated useful life of 3 to six (6) years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

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

An item of other properties acquired is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statements of income under "Gains on foreclosure, and sale of property and equipment and foreclosed assets - net" account in the period of derecognition.

Intangible Assets

Intangible assets consist of software costs and branch licenses. Intangible assets acquired separately, included under "Other assets" account in the statements of financial position, are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets are not capitalized but recognized in the statements of income in the period when the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the economic useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is recognized in the statements of income under the expense category consistent with the function of the intangible asset. Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statements of income in the period when the asset is derecognized.

Branch Licenses

Branch licenses are granted by the BSP and capitalized on the basis of the costs incurred to acquire and bring to use in operation. Branch licenses are determined to have indefinite useful lives and are tested for impairment annually.

Software Costs

Software costs include costs incurred relative to the purchase of the Bank's software and are amortized on a straight-line basis over 5 years. Software costs are carried at cost less accumulated amortization and any impairment in value.

Non-current Assets Held for Sale

Non-current assets held for sale include assets with or without improvements that are highly probable to be sold within 1 year and are included in the sales auction program for the year. Assets held for sale are stated at the lower of its carrying amount and fair value less costs to sell.

The Bank measures a noncurrent asset that ceases to be classified as held for sale at the lower of:

- the carrying amount before the noncurrent asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the noncurrent asset not been classified as held for sale; and

- the recoverable amount at the date of the subsequent decision not to sell.

The Bank includes any required adjustment to the carrying amount of a noncurrent asset that ceases to be classified as held for sale in income from continuing operations in the year in which the asset ceases to be held for sale.

Impairment of Nonfinancial Assets

Property and Equipment, Non-current Assets Held for Sale, Other Properties Acquired and Intangible Assets

At each reporting date, the Bank assesses whether there is any indication of impairment on property and equipment, non-current assets held for sale, other properties acquired and intangible assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of net recoverable amount. The net recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the net recoverable amount is assessed as part of the cash-generating unit to which it belongs. Value in use is the present value of future cash flows expected to be derived from an asset or cash-generating unit while fair value less cost to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable and willing parties less any costs of disposal. Where the carrying amount of an asset (or cash-generating unit) exceeds its net recoverable amount, the asset (or cash-generating unit) is considered impaired and is written-down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An impairment loss is charged against operations in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged first to the revaluation increment of the said asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the net recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's net recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its net recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in the statements of income.

After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the income can be reliably measured. Expense is recognized when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen to the Bank that can be measured reliably.

The following specific recognition criteria must also be met before income and expense are recognized:

Interest Income and Interest Expense

Interest income and interest expense are recognized in the statements of income and expenses for all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS securities as they accrue, using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all the contractual terms of the financial instruments including any fees or incremental costs that are directly attributable to the instrument and are integral part of the effective interest rate, but not future credit losses. The EIR is established on initial recognition of the financial asset and liability and is not revised subsequently. The carrying amount of the financial asset or liability is adjusted if the Bank revises its estimates of payments or receipts. The change in carrying amount is recognized in statements of income and expenses as interest income or expense.

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

Trading and Investment Securities Gains or Losses

Trading and investment securities gains or losses represent results arising from disposal of AFS securities and trading activities (realized gains and losses) and from the changes in fair value of financial assets and financial liabilities at FVPL (unrealized gains or losses).

Service Charges, Fees and Commissions

Fees and commission income and expenses that are integral to the EIR of a financial asset or liability are included in the measurement of the EIR. Fees and commission income is recognized to the extent that an inflow of economic benefits is probable and that the amount of revenue can be reliably measured.

Fees and commission income is recognized at the fair value of the consideration received/receivable. If the fees are received upfront, these are amortized over the term that the service is rendered. Commitment fees for facilities where a drawdown is not generally expected must be recognized over the facility period.

Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to their collectability. Fees earned for the provision of services over a period of time are accrued over that period.
Fees and commissions include loan upfront fees, guarantee fees, investment fund fees, custodian fees, fiduciary fees, portfolio and other management fees.

Fees and commission expense are recognized when incurred.

Dividends

Dividends are recognized when the Bank's right to receive the dividends is established.

Rental Income
Payments received under operating lease arrangements are recognized in the statements of income on a straight-line basis over the term of the lease.

Retirement Benefits
The Bank has a funded, noncontributory defined benefit plan administered by a trustee. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation. The retirement cost is generally funded through payments to a trustee-administered fund, determined by annual actuarial calculations.

The retirement benefits liability recognized in the statements of financial position in respect of the defined benefits retirement plan (see Note 27) is the present value of the defined benefits obligation at the valuation date less the fair value of plan assets. The defined benefits obligation is calculated annually by an independent actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

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

Remeasurements of the defined benefit liability, which include actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Bank determines the net interest expense (income) on the retirement benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the retirement benefit liability (asset), taking into account any changes in the retirement liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in the statements of income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the statements of income.

The Bank recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or

(d) There is a substantial change to the asset.

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

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

Bank as a Lessor
The Bank is also a party to operating leases as a lessor. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and amortized over the lease term on the same basis as the rental income. Contingent rentals are recognized as income in the period in which they are earned.

Income Taxes
Current Tax
Current income tax is the expected tax payable on the taxable income for the year using the tax rates enacted at the reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from the excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of unused MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are applicable to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Provisions

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

Contingent Assets and Contingent Liabilities

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

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

Events After the Reporting Date

Post year-end events that provide additional information about the Bank's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new standards, amendments to standards are effective for annual periods beginning after January 1, 2015. The Bank has not applied the following new or amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements except for PFRS 9.

The Bank will adopt the new or revised standards and amendments to standards in the respective effective dates as discussed below:

To be Adopted on January 1, 2016

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to PAS 16 and PAS 38).* The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

  The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g. changes in sales volumes and prices.

  The amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. Early application is permitted.

- *Annual Improvements to PFRSs 2012 - 2014 Cycle.* This cycle of improvements contains amendments to four (4) standards. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

  - *Changes in method for disposal (Amendments to* PFRS 5*, Non-current Assets Held for Sale and Discontinued Operations).* PFRS 5 is amended to clarify that:

    - if an entity changes the method of disposal of an asset (or disposal group) - i.e. reclassifies an asset (or disposal group) from held-for-distribution to owners to held-for-sale (or vice versa) without any time lag - then the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset (or disposal group) and recognizes any write-down (impairment loss) or subsequent increase in the fair value less costs to sell/distribute of the asset (or disposal group); and

    - if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting.

    Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed.

    The amendment to PFRS 5 is applied prospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, to changes in methods of disposal that occur on or after January 1, 2016.

- *'Continuing involvement' for servicing contracts (Amendments to* PFRS 7, *Financial Instruments: Disclosures).* PFRS 7 is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset - e.g. if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred financial asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement'.

  The amendments to PFRS 7 are applied retrospectively, in accordance with PAS 8 except that the PFRS 7 amendments relating to servicing contracts need not be applied for any period presented that begins before the annual period for which the entity first applies those amendments.

- *Disclosure Initiative (Amendments to* PAS 1*, Presentation of Financial Statements)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1. The amendments clarify that:

  - Information should not be obscured by aggregating or by providing immaterial information.

  - Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.

  - The list of line items to be presented in the statement of financial position and statement of profit or loss and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

  - An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

  The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

To be Adopted on January 1, 2018

- PFRS 9*, Financial Instruments (2014)*. PFRS 9 (2014) replaces PAS 39 and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013).

  PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of PFRS 9.

To be Adopted on January 1, 2019

- PFRS 16*, Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted PFRS 15, *Revenue from* Contracts *with Customers*.

Pending approval of local adoption of PFRS 15, Revenue from Contracts with Customers

- PFRS 15*, Revenue from Contracts with Customers* replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if 2 companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

4. Critical Judgments and Estimates

The preparation of financial statements in conformity with PFRSs require management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses, and disclosures of contingent assets and contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

<u>Judgments</u>
In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on amounts recognized in the financial statements:

(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:

a) the currency that mainly influences sales prices for financial instruments and services;

b) the currency in which funds from financing activities are generated; and

c) the currency in which receipts from operating activities are usually retained.

Based on the economic substance of the underlying circumstances relevant to the Bank, the functional currency of the Bank has been determined to be PHP. PHP is the currency of the primary economic environment on which the Bank operates. It is the currency that mainly influences the income and costs arising from the Bank's operations.

(b) Embedded Derivatives

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statements of financial position together with the host contract.

(c) *Provisions and Contingencies*

The Bank, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations in accordance with its policies on provisions and contingencies. Judgment is exercised by management to distinguish between provisions and contingencies.

(d) *Operating Leases*

Bank as Lessor
The Bank has entered into commercial property lease agreements for its property and equipment, and investment properties. The Bank has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out under operating lease agreements.

Bank as Lessee
The Bank has entered into operating lease agreements for the 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 arrangements are not transferable to the Bank.

In determining whether or not there is an indication of the operating lease treatment, the retention of ownership title to the leased property, period of lease contract relative to the estimated economic useful life of the leased property and bearer of executory costs, among others, are considered.

<u>Estimates</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

(a) *Fair Value of Financial Instruments*

Where the fair values of financial assets and financial liabilities (including derivatives) recognized in the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are 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. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

(b) *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.

(c) *Impairment of AFS Securities*

The Bank classifies certain financial assets as AFS securities and recognizes movements in their fair values as OCI. When their fair values decline, management makes assumptions about the decline in value to determine whether it is an objective evidence of impairment. The recognition of an impairment loss, representing the net unrealized losses previously reported as part of equity, may be appropriate when there is evidence of deterioration in the financial health, industry and sector performance and operational and financing cash flows of the investee.

The Bank treats AFS equity securities as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgment. The Bank treats “significant” generally as 20.0% or more of the original cost of the investment, and “prolonged” if greater than 6 months.

The carrying values of AFS securities and the related allowance for impairment losses are disclosed in Notes 9 and 16.

(d) Impairment and Credit Losses on Loans and Receivables

The Bank reviews its loans and receivables portfolio to assess impairment at least on an annual basis or more frequently as deemed necessary. Loans and receivables that are individually significant are assessed to determine whether objective evidence of impairment exists on an individual basis, while those that are not individually significant are assessed for objective evidence of impairment on a collective basis. In determining whether an impairment loss should be recognized in statements of income, the Bank makes judgments as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying values of loans and receivables and the related allowance for credit losses are disclosed in Notes 10 and 16.

The Bank determines the appropriate allowance for individual accounts whose outstanding balance as at reporting date is either past due or under litigation as at reporting date.

Based on the allowance provided by the Bank for impairment losses, management believes that the Bank has sufficient allowance to cover any losses that the Bank may incur from non-collection or non-realization of its receivables.

(e) *Impairment of Non-financial Assets*

Property and Equipment, Non-current Assets Held for Sale, Other Properties Acquired and Intangible Assets

The Bank assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its net recoverable amount. Net recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

The carrying values of property and equipment, non-current assets held for sale, other properties acquired and intangible assets are disclosed in Notes 11, 13 and 15.

(f) *Estimated Useful Lives of Property and Equipment, Other Properties Acquired and Software Costs*

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

The estimated useful lives of property and equipment, other properties acquired and software costs are disclosed in Note 3.

(g) *Fair Value Determination of Investment Properties and Revaluation of Property and Equipment*

The Bank carries its investment properties at fair value, with changes in fair value being recognized in the statements of income. In addition, it measures land and building under "Property and equipment" in the statements of financial position at revalued amounts with changes in appraised value being recognized in OCI. Fair value of investment properties is derived on the basis of recent sales of similar properties in the same areas where the investment properties are located taking into account the economic conditions prevailing at the time of the valuation made. The Bank engaged various accredited independent appraisers to determine the appraised value of land and building on a periodic basis. The valuations performed by the appraisers are based on market prices of similar properties in the same areas the land and building are located, adjusted for any difference in the nature, location or condition of the specific property.

The fair value of investment properties and the appraised value of land and building are disclosed in Notes 13 and 14, respectively.

(h) Recognition of Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that sufficient taxable income will be available against which the related tax benefits can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the forecasted timing and amount of future taxable income together with future tax planning strategies.

The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The recognized and the unrecognized deferred tax assets are disclosed in Note 30.

(i) Present Value of Retirement Benefits Obligation

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

The assumed discount rates were determined using the prevailing market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at reporting date. The present value of the Bank's retirement obligation and the fair value of plan assets are disclosed in Note 27.

(j) Contingencies

The Bank is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed by management, in consultation with the legal counsels handling the Bank's legal defense in these matters, and is based upon an analysis of potential results. The Bank's management currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 31).

5. Financial Risk Management Objectives and Policies

Introduction

The business of banking involves financial risks which must be measured, monitored and managed by an effective risk management system embedded throughout the whole organization. Effective risk management ensures that financial risks are properly identified, assessed, measured and managed. The diligent monitoring and management of all financial risks, notably credit, market, liquidity, and operational risks, require the development of a risk-conscious culture that will influence daily business activities and decision-making.

The Bank believes that effective risk management will not only minimize potential or actual losses but will also optimize earnings by correctly pricing its products and services commensurate to the risks taken. Its risk mission and objectives are to consistently and accurately measure risks, to always consider risk and return in evaluating transactions and exposures while preserving and maintaining adequate risk-based capital and to ensure adequate returns on such capital. Risk mitigation strategies form an integral part of risk management activities.

Risk Management Structure
The BOD is ultimately responsible for identifying and controlling risks; however, there are separate independent units at the BOD and management levels, responsible for managing and monitoring financial risk.

BOD
The BOD has the responsibility of promoting the highest standards of ethics and integrity. The BOD has management oversight for establishing and maintaining a sound risk management system for the whole institution. The BOD approves and reviews the institutional tolerance for risks, business strategies and risk philosophy.

Corporate Governance Committee
The Corporate Governance Committee is tasked to assist the BOD in fulfilling its corporate governance responsibilities and in providing oversight in the implementation of the Bank's Compliance System.

Related Party Transactions Committee (RPTCom)
The RPTCom shall assist the BOD in fulfilling its corporate governance responsibility related to the safety and soundness of the Bank's financial transaction/s with related parties as defined in the Bank's policy, and ensure that such are conducted at arm's length terms and conditions.

Audit Committee
The Audit Committee represents and assists the BOD in its general oversight of the Bank's financial reporting policies, practices and control and internal and external audit functions.

Board Risk Oversight Committee (BROC)
The BROC, a sub-committee of the BOD, oversees the Bank's risk management system. It has the power to approve procedures for implementing risk and capital management policies. The BROC shall assist the BOD with its oversight function to identify and evaluate risk exposures, develop risk management strategies, implement and periodically review the risk management framework and promote a risk management culture in the Bank.

Risk Management Division (RSK)
The RSK is responsible for the creation and oversight of the Bank's corporate risk policy. It is responsible for making recommendations to the BOD on corporate policies and guidelines for risk measurement, management and reporting. It also reviews the system of risk limits, compliance to said limits and validates the reports of the risk taking personnel. The RSK reports to the BROC.

Asset and Liability Committee (ALCO)
The ALCO shall be responsible for setting, developing and implementing the Bank's Asset Liability Management and hedging policy. It also reviews allocation of resources, pricing products and foreign exchange position of the Bank.

Credit and Collections Committee (Crecom)
The Crecom is responsible for the evaluation and approval of credit proposals based on a hierarchy of delegated credit authorities from the BOD. It is also tasked to review other credit-related matters, including amendments or revisions to existing policies as well as proposed credit risk policies for BOD approval. They are tasked with formulating standards for credit evaluation/analysis, diligence in credit assessment and reporting disclosure. It recommends credit risk management policies for BOD approval.

Internal Audit Division/Risk Control and Compliance Monitoring
They are tasked to monitor operational risk exposures. They monitor compliance of the risk taking personnel and business units to policies and procedures. They also check for internal control deficiencies or unmitigated control risks and review the relevance of existing risk policies and procedures.

Legal Services Division
The primary functions of the Bank's Legal Services Division compose of rendering legal advice and document review to ensure that relevant laws are complied with the Bank's interest duly protected and identified risks are either eliminated or minimized and imparted to responsible units of the Bank.

Compliance Division
The Compliance Division oversees that the Bank is effectively managing regulatory compliance in accordance with the Compliance Manual. The same division is also responsible for the implementation of the Anti-Money Laundering Program.

<u>Risk Measurement and Reporting Systems</u>
The Bank's capital adequacy is determined by measuring credit, market and operational risk exposures using standardized or basic approaches as suggested by the BSP. Risks exposures are measured both individually and in aggregate amounts.

Risk measurements are done by respective risk-taking personnel and groups but are independently validated, analyzed and reported by the RSK.

Market risks are measured by mark-to-market analysis on portfolios. These exposures are also stress-tested under worst-case scenarios.

Quality of credit risks are measured via risk classifications of accounts using Internal Credit Rating Systems together with the BSP risk classification of borrowing accounts. Senior management evaluates the required provisions for loan losses based on these data on a monthly basis. All risk information are processed, analyzed and consolidated for proper reporting to the BOD through the BROC, Audit Committee as well as the Senior Executive Team of the Bank.

Actual and estimated risk exposures/losses at Treasury, Credit Management, Consumer Business and Credit Cards, Operations and Information Technology, Trust and Branches are consolidated for regular reporting. Reports include, among others, portfolio mix, liquidity and maturity matching, interest rate matching, trading gains and losses, sensitivity and back-testing results, top borrowers, non-performing assets and loans, industry exposures, large exposures, fines and penalties, employee fraud cases, service level of major information technology systems and ATMs.

<u>Risk Mitigation</u>
To mitigate market risk exposures, other financial instruments are used to manage exposures resulting from changes in foreign currency risk. The Bank also observes limits on positions, losses, and market sensitivities to contain these risk exposures.

The Bank maintains a capital adequacy ratio (CAR) of ten percent (10.0%) or better at all times.

Risk Concentration

The Bank manages loan concentration by controlling its mix of counterparties or borrowers in accordance with conditions permitted by regulators. Borrowers that are considered large in size are regularly monitored and reported to the BROC. Also, limits for exposure on specific economic activity groups are in place allowing the Bank to maintain a strategic breakdown of credit risk of different segments. Having these controls in place allow the Bank to proactively monitor exposure status and to act upon limit breaches whenever necessary.

Credit Risk

The Bank considers credit risk as the possibility of loss arising from the counterparty's or customer's inability or unwillingness to settle his/her obligations on time or in full as expected or previously contracted.

The Bank has in place a credit policy manual that defines all practices, policies and procedures regarding loan activities from identification of target markets, credit initiation, documentation and disbursement, loan administration, remedial management and loan unit organization and staffing. Also, it has in place credit approval authorities and respective limits duly approved by the BOD.

The Bank's primary element of credit risk management is the detailed risk assessment of every credit exposure associated with the counterparty. Risk assessment procedures consider both the creditworthiness of the counterparty and the risks related to the specific type of underlying credit exposures as mandated by circulars issued by BSP. The risk assessment not only affects the structuring of the transaction and the outcome of the credit decision, but also influences the monitoring procedure applied to the ongoing exposures.

There has been no change to the Bank's exposure to credit risk or the manner in which it manages and measures the risk since prior financial year.

Derivative Financial Instruments

The Bank enters into currency forward contracts to manage its foreign exchange risks. Currency forwards are contractual agreements to buy or sell a specified currency at a specific price and date in the future. These derivatives are accounted for as non-hedges, with the fair value changes being reported in statements of income for the period under "Trading and investment securities gains - net" account. Credit risk in respect of derivative financial instruments such as credit default swap is limited to those with positive fair values, which are reported as financial assets at FVPL.

Credit-related Commitment Risks

The Bank makes available to its customers guarantees which may require the Bank to make payment on their behalf. Such payments are collected from customers based on the terms of letters of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

Credit Risk Exposures

The table below shows the Bank's maximum exposure for receivables from customers and sales contract receivables net of unearned interest income and allowance for credit losses, before and after collateral to credit risk as at December 31, 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Maximum Exposure		Maximum Exposure	
	Before Collateral	**After Financial Effect of Collateral or Credit Enhancement**	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
Receivables from customers:				
Term loans	**P33,301,563,696**	**P29,123,321,567**	P34,238,696,368	P27,978,963,655
Bills purchased, import bills and trust receipts	**864,585,856**	**858,685,389**	1,416,907,927	1,379,315,720
Direct advances	**838,386,984**	**139,183,077**	709,003,210	102,413,425
Agri-agra loans	**425,406,824**	**400,055,026**	337,411,805	306,948,699
Others	**5,217,742,238**	**2,722,715,965**	4,008,261,213	2,361,981,231
	40,647,685,598	**33,243,961,024**	40,710,280,523	32,129,622,730
Sales contracts receivable	**865,147,466**	**1,037,885**	1,153,994,843	1,553,512
	P41,512,833,064	**P33,244,998,909**	P41,864,275,366	P32,131,176,242

As at December 31, 2015 and 2014, fair value of collateral held for loans and receivables amounted to P20.7 billion and P15.7 billion, respectively.

For the other financial assets, the carrying amounts represent the maximum exposure to credit risk as at December 31, 2015 and 2014.

Collateral and Other Credit Enhancements

The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty. Guidelines are implemented regarding the acceptability of types of collateral valuation and parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions: cash or securities;
- For commercial lending: mortgages over real estate properties, inventory and trade receivables and chattel mortgages; and
- For retail lending: mortgages over real properties.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement, in the event that the value of the collateral depreciates due to various factors affecting the collateral.

It is the Bank's policy to dispose of repossessed properties in the most expeditious manner possible. Sale is facilitated by offering incentives to the Bank's accredited brokers and through formulating programs to attract buyers like offering fixed interest rates for an extended period of time and reduced rates for downpayment as compared to prevailing market rates as examples.

Borrower Risk Rating (BRR) Disclosure

In compliance with the BSP, the Bank implemented in 2007 a credit risk classification that is compliant with global rating standards. The BRR is the evaluation of the credit worthiness of an existing or prospective borrower. The account is evaluated independent of any influence from any transactional factors. The BRR measures the company's credit quality by looking into 3 major aspects, namely, financial condition, industry analysis and management quality. Each section was given the following point allocation:

Section	Maximum Points	Section Rating
Financial Condition	240	40%
Industry Analysis	210	30%
Management Quality	150	30%
TOTAL:	**600**	**100%**

There are several rating factors per section which can earn points depending on the 4 quality judgment as follows:

Good	- 30 points
Satisfactory	- 20 points
Still Acceptable	- 10 points
Poor	- 0 point

If there is no available information for a specific factor, a rating of "Poor" will be given. The BRR is used to determine the credit quality of the Bank's loan accounts. Loan accounts are classified according to a 1 - 10 rating scale based on BRR results, as follows:

	Final Score	Equivalent Risk Rating	Calculated BRR
High Grade	>177	Excellent	1
	150 - 176	Strong	2
	123 - 149	Good	3
Standard Grade	96 - 122	Satisfactory	4
	68 - 95	Acceptable	5
	<68	Watchlist	6
Substandard Grade		Special Mention	7
Impaired		Substandard	8
		Doubtful	9
		Loss	10

High Grade or accounts with BRR rating of 1-3 are loans where the risk of the Bank are good to excellent in terms of risk quality and where the likelihood of the non-payment of obligation is less likely to happen.

Excellent - BRR 1

These are loans with access to raise substantial amounts of funds through the public markets at any time, strong debt servicing capacity, conservative statements of financial position leverage vis-a-vis the industry in which the borrower operates, very good profit track record, timely payments, no history of payment delinquencies, high level of liquidity, strong operating trends and no likely existing or future disruptions.

Strong - BRR 2

These are loans with good access to public funds, strong market, strong overall debt servicing, cash flow which can very well cover debt services, usually with quality of multinational or well-capitalized local corporations, no history of payment delinquencies and with adequate liquidity.

Good - BRR 3

These are loans which cover smaller corporations with access to public markets or alternative financial markets, quite low probability of default, susceptible to cyclical changes and more concentration of business risk by product or market, profitable for the last 3 years, no history of payment default in the last 12 months, satisfactory payment record, unlikely to be affected by existing or future disruptions and competent under current business model.

Standard Grade or accounts with BRR rating of 4-6 are loans where the risk of the Bank ranges from satisfactory to acceptable with some form of weakness and where repayment capacity needs to be watched.

Satisfactory - BRR 4

These are loans where there are certain clear risk element present, volatility of earnings and overall performance, normally have limited access to financial markets, can withstand normal business cycles but prolonged unfavorable economic period would affect performance, good matching of assets and cash flows, adequate debt servicing, reported profits in the fiscal year, with expectations of a profitable outcome in the current year, adequate to marginal liquidity, generally meeting obligations, likely to experience disruptions from external factors but the borrower has a great chance to overcome them.

Acceptable - BRR 5

These are loans with sufficiently pronounced risk elements, still able to withstand normal business cycles, prolonged economic and financial crisis which can have an immediate effect on the company's operations, sufficient cash flow in spite of an economic downturn, with extraordinary developments that can present higher risk, marginal liquidity, declining trend in profits but repayment is still within satisfactory level, and with turnovers or unfilled key management positions.

Watchlist - BRR 6

These are loans to borrowers whose risk qualities are still acceptable but exhibit weaknesses. Start-up companies are also automatically rated as Watchlist.

Special Mention - BRR 7

Substandard Grade or accounts with BRR rating of 7 are loans observed to have potential weaknesses and require a closer observation than the accounts under the Standard rating since if weaknesses are uncorrected, repayment of the loan may be affected.

Impaired accounts are loans classified by the Bank as Substandard, Doubtful and Loss where there are experiences of past due accounts and there are well-defined weaknesses where collection or liquidation of obligation may be or is already jeopardized.

Substandard - BRR 8

These are loans or portions thereof which involve a substantial and unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. There is a possibility of future loss to the Bank unless given closer supervision. These are also loans not necessarily past due but with well-defined weaknesses that jeopardize liquidation. Weaknesses include adverse trend or development of financial, managerial, economic or political nature or a significant weakening of the fair value of the collateral.

<u>Doubtful - BRR 9</u>
These are loans, not necessarily past due, which have weaknesses inherent to those classified as Substandard with added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

<u>Loss - BRR 10</u>
These are loans, not necessarily past due, which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

The BRR can be subject to an upgrade/downgrade on the basis of the following:

Group Affiliation:
1) When a Borrower belongs to a group of companies, it can be upgraded up to the rating of the parent company provided that the parent company has a BRR 4 or better.
2) However, if the BRR of the subsidiary is better than the parent, a downgrade can be considered especially if the parent has a BRR 5 or worse.

3) If the parent has a BRR 5 or lower and the subsidiary was also rated 5 or worse, it can retain its own rating.

4) If there are criteria such as the medium and long term outlook, special risks that can grievously affect the company and outweigh the other criteria, a possible downgrade can be considered.

5) Companies with rapid expansion without a strong driving force or only on account of a single customer are also potential for downgrading.

Facility Risk Factor (FRF):
1) The FRF is an adjustment in the BRR that considers the transactional influence. It takes into account the quality of each facility. It is important to note that a Borrower can have only 1 BRR but several FRF for its multiple facilities. FRF evaluates the different security arrangements; the quantity and the quality of the collateral cover for each facility.

2) Collaterals are assessed at the net realizable value in a liquidation scenario. In evaluating the worthiness of the collateral, the quality of the documentation and the possible subordination of the Bank's claim should also be considered.

The adjustment on the BRR based on the FRF will be based on the following:

Upgrade	The facility is cash collateralized or covered by marketable securities
	Full collateralization of other assets
	3rd party guarantees in accordance with the BRR of the guarantor. An upgrade should be set to the BRR of the guarantor.
Downgrade	Borrower is a potential candidate for a downgrade if the facility is clean or a major part of the facilities are pledged to other creditors.

Credit Quality Per Class of Financial Assets
The credit quality of financial assets is assessed and managed by the Bank using external and internal credit ratings.

The following table shows the credit quality of financial assets, net of unearned interest income (in thousands).

	December 31, 2015			
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Total**
Neither past due nor impaired	**P40,617,772**	**P58,473,401**	**P25,050,681**	**P124,141,854**
Past due but not impaired	**165,562**	**-**	**-**	**165,562**
Impaired	**3,996,927**	**-**	**440,562**	**4,437,489**
Gross	**44,780,261**	**58,473,401**	**25,491,243**	**128,744,905**
Less allowance for credit losses	**2,338,501**	**-**	**340,122**	**2,678,623**
Net	**P42,441,760**	**P58,473,401**	**P25,151,121**	**P126,066,282**

**Comprised of Due from BSP, Due from other banks and Interbank loans receivable*
*** Comprised of Financial assets at FVPL and AFS securities*

	December 31, 2014			
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	P40,298,345	P58,446,656	P28,134,007	P126,879,008
Past due but not impaired	94,399	-	-	94,399
Impaired	5,191,648	-	440,608	5,632,256
Gross	45,584,392	58,446,656	28,574,615	132,605,663
Less allowance for credit losses	2,745,206	-	340,168	3,085,374
Net	P42,839,186	P58,446,656	P28,234,447	P129,520,289

**Comprised of Due from BSP, Due from other banks and Interbank loans receivable*
*** Comprised of Financial assets at FVPL and AFS securities*

The table below shows the credit quality by class of assets for loans and receivables (gross of allowance for credit losses and unearned interest income) based on the Bank's credit rating (in thousands).

	December 31, 2015					
	Neither Past Due nor Individually Impaired					
	High Grade	**Standard Grade**	**Substandard**	**Unrated**	**Past Due or Impaired**	**Total**
Loans and receivables:						
Receivable from customers	**P12,756,688**	**P17,579,365**	**P4,297,376**	**P4,570,090**	**P2,856,144**	**P42,059,663**
Sales contracts receivable	**-**	**-**	**-**	**533,732**	**332,453**	**866,185**
Unquoted debt securities	**-**	**-**	**-**	**-**	**291,578**	**291,578**
Accrued interest receivable	**-**	**-**	**-**	**532,031**	**180,993**	**713,024**
Accounts receivable	**-**	**-**	**-**	**375,428**	**501,321**	**876,749**
Returned checks and other check items (RCOCI)	**-**	**-**	**-**	**1,220**	**-**	**1,220**
	P12,756,688	**P17,579,365**	**P4,297,376**	**P6,012,501**	**P4,162,489**	**P44,808,419**

	December 31, 2014					
	Neither Past Due nor Individually Impaired					
	High Grade	Standard Grade	Substandard	Unrated	Past Due or Impaired	Total
Loans and receivables:						
Receivable from customers	P7,309,663	P20,889,207	P6,600,896	P3,925,636	P3,504,501	P42,229,903
Sales contracts receivable	-	-	-	696,198	459,350	1,155,548
Unquoted debt securities	-	-	-	-	613,122	613,122
Accrued interest receivable	-	-	-	635,354	203,783	839,137
Accounts receivable	-	-	-	291,764	505,291	797,055
RCOCI	-	-	-	5,897	-	5,897
	P7,309,663	P20,889,207	P6,600,896	P5,554,849	P5,286,047	P45,640,662

For financial assets such as amounts due from BSP and other banks, interbank loans receivable, financial assets at FVPL, AFS securities and unquoted debt securities classified as loans, the credit quality is assessed using external credit rating (such as Standard & Poors, Fitch, Moody's, etc.) of the respective counterparties, as follows:

	December 31, 2015		
	AA - A	**Below BBB or Unrated**	**Total**
Loans and advances to banks:			
Due from BSP	**P -**	**P49,802,020,338**	**P49,802,020,338**
Due from other banks	**2,336,787,888**	**950,987,341**	**3,287,775,229**
Interbank loans receivable	**5,383,605,561**	**-**	**5,383,605,561**
	7,720,393,449	**50,753,007,679**	**58,473,401,128**
Financial assets at FVPL:			
Government securities held for trading	**-**	**1,677,624,660**	**1,677,624,660**
Derivative assets*	**-**	**23,530,000**	**23,530,000**
Other debt securities	**-**	**317,113**	**317,113**
	-	**1,701,471,773**	**1,701,471,773**
AFS securities - gross:			
Quoted government securities	**-**	**18,063,707,612**	**18,063,707,612**
Quoted other debt securities	**4,074,798,039**	**378,744,751**	**4,453,542,790**
Unquoted debt securities	**790,896,041**	**-**	**790,896,041**
Quoted equity securities	**-**	**146,737,431**	**146,737,431**
Unquoted equity securities	**-**	**334,887,343**	**334,887,343**
	4,865,694,080	**18,924,077,137**	**23,789,771,217**
Loans and receivables - gross:			
Unquoted debt securities	**-**	**291,578,196**	**291,578,196**
	-	**291,578,196**	**291,578,196**
	P12,586,087,529	**P71,670,134,785**	**P84,256,222,314**

** Unrated derivatives pertain to warrants*

	December 31, 2014		
	AA - A	Below BBB or Unrated	Total
Loans and advances to banks:			
Due from BSP	P -	P49,198,853,766	P49,198,853,766
Due from other banks	3,345,549,614	202,536,846	3,548,086,460
Interbank loans receivable	4,699,715,902	1,000,000,000	5,699,715,902
	8,045,265,516	50,401,390,612	58,446,656,128
Financial assets at FVPL:			
Government securities held for trading	-	329,456,496	329,456,496
Derivative assets*	-	22,360,000	22,360,000
Other debt securities	-	1,391,014	1,391,014
	-	353,207,510	353,207,510
AFS securities - gross:			
Quoted government securities	-	22,933,705,333	22,933,705,333
Quoted other debt securities	3,502,756,773	506,504,357	4,009,261,130
Unquoted debt securities	795,923,929	-	795,923,929
Quoted equity securities	-	146,737,431	146,737,431
Unquoted equity securities	-	335,779,656	335,779,656
	4,298,680,702	23,922,726,777	28,221,407,479
Loans and receivables - gross:			
Unquoted debt securities	-	613,122,002	613,122,002
	-	613,122,002	613,122,002
	P12,343,946,218	P75,290,446,901	P87,634,393,119

** Unrated derivatives pertain to warrants*

Carrying amount per class of loans and receivables whose terms have been renegotiated follows:

	2015	2014
Term loans	**P1,290,884,002**	P1,328,468,181
Others	**-**	798,415
	P1,290,884,002	P1,329,266,596

Aging Analysis of Past Due but not Impaired

Past due loans and receivables include those that are only past due for a few days. An analysis of past due loans, by age, is provided below.

	December 31, 2015			
	1-30 Days	**31-60 Days**	**61-90 Days**	**Total**
Receivable from customers (gross):				
Direct advances	**P2,000,000**	**P69,569,078**	**P -**	**P71,569,078**
Others	**32,353,978**	**19,876,015**	**1,492,242**	**53,722,235**
Sales contracts receivable	**27,113,496**	**7,670,237**	**5,486,538**	**40,270,271**
	P61,467,474	**P97,115,330**	**P6,978,780**	**P165,561,584**

	December 31, 2014			
	1-30 Days	31-60 Days	61-90 Days	Total
Receivable from customers (gross):				
Direct advances	P2,000,000	P -	P -	P2,000,000
Term loans	41,467	-	-	41,467
Agri-agra loans	11,008,557	-	-	11,008,557
Others	23,165,501	15,838,071	7,371,747	46,375,319
Sales contracts receivable	18,471,214	12,163,697	4,338,605	34,973,516
	P54,686,739	P28,001,768	P11,710,352	P94,398,859

Impairment Assessment
The main consideration for the loan impairment assessment is an objective evidence of occurrence of events that would have an impact on the estimated future cash flows of the asset. This includes whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in 2 areas: individually assessed allowances and collectively assessed allowances.

BSP Regulatory Reporting - Credit Risk
The Bank calculates its credit risk-weighted assets using the standardized approach, the simplest of the 3 broad approaches to credit risk. This approach allows the Bank to utilize a wider differentiation of risk weights and a wider recognition of risk mitigation techniques without taking in excessive complexity in the process.

Below is the summary of risk weights and selected exposure types:

	Standardized Credit Risk Weights							
Credit Assessment	**AAA**	**AA+ to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to BB-**	**B+ to B-**	**Below B-**	**Unrated**
Sovereigns	**0%**	**0%**	**20%**	**50%**	**100%**	**100%**	**150%**	**100%**
Multilateral Development Banks (MDBs)	**0%**	**20%**	**50%**	**50%**	**100%**	**100%**	**150%**	**100%**
Banks other than MDBs	**20%**	**20%**	**50%**	**50%**	**100%**	**100%**	**150%**	**100%**
Interbank Call Loans				**20%**				
Local Government Units	**20%**	**20%**	**50%**	**50%**	**100%**	**100%**	**150%**	**100%**
Government Corporations (GCs)	**20%**	**20%**	**50%**	**100%**	**100%**	**150%**	**150%**	**100%**
Corporations other than GCs	**20%**	**20%**	**50%**	**100%**	**100%**	**150%**	**150%**	**100%**
Housing Loans				**50%**				
Micro, Small and Medium Enterprise								
qualified portfolio				**75%**				
Defaulted Exposures								
Housing Loans				**100%**				
Others				**150%**				
Real and Other Properties Acquired				**150%**				
All other assets				**100%**				

Credit risk-weighted assets as at December 31, 2015 and 2014 as reported to the BSP follows (amounts in thousands):

	2015	2014
Risk-weighted on-balance sheet assets	**P56,214,952**	P58,881,597
Risk-weighted off-balance sheet assets	**2,693,870**	337,661
Counterparty risk-weighted assets in the trading book	**11,824**	-
Total gross risk-weighted assets	**58,920,646**	59,219,258
General loan loss provision (in excess of the amount permitted to be included in Upper Tier 2)	**-**	(64,229)
	P58,920,646	P59,155,029

The Bank's credit risk-weighted exposures arising from on-balance sheet assets amounting to P56.2 billion contribute 95.4% of the credit exposures of the Bank. Credit risk-weighted off-balance sheet assets and counterparty risk-weighted assets in the trading book make up the remainder. The off-balance sheet assets, consisting mainly of direct substitutes, e.g. guarantees and financial standby LCs, and transaction and trade-related contingencies, are weighted at 100%.

The Bank's credit exposures are risk-weighted based on third party credit assessment of the individual exposure as obtained from third party credit assessment institutions recognized by the BSP. In the calculation of risk weighted assets in both the banking and trading books, the Bank utilizes the disclosed ratings from Standard & Poors, Moody's, Fitch Ratings, and Philratings, whenever available. In cases where there are 2 or more ratings which correspond into different risk weights, the higher of the 2 lowest risk weights is used.

The breakdown of risk-weighted on-balance sheet assets follows (amounts in thousands):

	December 31, 2015								
	Exposures, Net of Specific Provisions	Exposures Covered by Credit Risk Mitigation (CRM), Gross of Materiality Threshold	Exposures not Covered by CRM	Risk Weights 0%	20%	50%	100%	150%	Total
Cash on hand	P2,227,849	P -	P2,227,849	P2,227,849	P -	P -	P -	P -	P2,227,849
COCI	25,783	-	25,783	-	25,783	-	-	-	25,783
Due from BSP	49,806,567	-	49,806,567	49,806,567	-	-	-	-	49,806,567
Due from other banks	7,317,492	-	7,317,492	-	426,783	6,725,982	164,727	-	7,317,492
AFS Securities	23,183,505	-	23,183,505	15,862,324	4,067,694	2,872,383	381,104	-	23,183,505
Loans and receivables	41,490,021	693,460	40,796,561	-	570,395	1,626,257	38,608,844	(8,935)	40,796,561
Sales contracts receivable	884,387	-	884,387	-	-	-	541,525	342,862	884,387
Real and Other Properties Acquired (ROPA)	2,625,419	-	2,625,419	-	-	-	-	2,625,419	2,625,419
Total exposures, excluding other assets	127,561,023	693,460	126,867,563	67,896,740	5,090,655	11,224,622	39,696,200	2,959,346	126,867,563
Other assets	5,449,195	-	5,449,195	-	-	-	5,449,195	-	5,449,195
Total exposures, including other assets	P133,010,218	P693,460	P132,316,758	P67,896,740	P5,090,655	P11,224,622	P45,145,395	P2,959,346	P132,316,758
Total risk-weighted on-balance Sheet assets not covered by CRM					P1,018,131	P5,612,311	P45,145,395	P4,439,019	P56,214,856
Total risk-weighted on-balance sheet assets covered by CRM					96	-	-	-	96
Total risk-weighted on-balance sheet assets					P1,018,227	P5,612,311	P45,145,395	P4,439,019	P56,214,952

	December 31, 2014								
	Exposures, Net of Specific Provisions	Exposures Covered by Credit Risk Mitigation (CRM), Gross of Materiality Threshold	Exposures not Covered by CRM	Risk Weights 0%	20%	50%	100%	150%	Total
Cash on hand	P2,173,268	P -	P2,173,268	P2,173,268	P -	P -	P -	P -	P2,173,268
COCI	152,362	-	152,362	-	152,362	-	-	-	152,362
Due from BSP	49,203,400	-	49,203,400	49,203,400	-	-	-	-	49,203,400
Due from other banks	7,980,004	-	7,980,004	-	210,313	7,589,753	179,938	-	7,980,004
AFS Securities	27,197,892	-	27,197,892	16,851,959	3,565,390	6,594,330	186,213	-	27,197,892
Loans and receivables	41,467,481	703,741	40,763,740	-	1,259,727	675,155	38,381,236	447,622	40,763,740
Sales contracts receivable	1,135,395	-	1,135,395	-	-	-	710,365	425,030	1,135,395
ROPA	2,386,634	-	2,386,634	-	-	-	-	2,386,634	2,386,634
Total exposures, excluding other assets	131,696,436	703,741	130,992,695	68,228,627	5,187,792	14,859,238	39,457,752	3,259,286	130,992,695
Other assets	6,067,585	-	6,067,585	-	-	-	6,067,585	-	6,067,585
Total exposures, including other assets	P137,764,021	P703,741	P137,060,280	P68,228,627	P5,187,792	P14,859,238	P45,525,337	P3,259,286	P137,060,280
Total risk-weighted on-balance Sheet assets not covered by CRM					P1,037,558	P7,429,619	P45,525,337	P4,888,929	P58,881,443
Total risk-weighted on-balance sheet assets covered by CRM					154	-	-	-	154
Total risk-weighted on-balance sheet assets					P1,037,712	P7,429,619	P45,525,337	P4,888,929	P58,881,597

The Bank uses credit risk mitigation techniques in order to obtain capital relief as allowed by regulations. With regard to the Bank's on-balance sheet assets, a few loans and receivables from government corporations and from private corporations are covered by eligible mitigants. In these cases, the documentation used in collateralized transactions and in guarantees has been reviewed to be legally enforceable in all relevant jurisdictions.

The breakdown of risk-weighted on-balance sheet assets covered by CRM follows (amounts in thousands):

	December 31, 2015					
	Guaranteed Portion	Total Exposures Covered by CRM	Risk Weights 0%	Risk Weights 20%	Total	Total exposures Covered by CRM, Gross of Materiality Threshold
Loans and Receivables						
Private corporations	**P280,317**	**P280,317**	**P279,837**	**P480**	**P280,317**	**P280,317**
Loans to individuals for consumption and other purposes	**413,143**	**413,143**	**413,143**		**413,143**	**413,143**
Total exposures covered by CRM	**P693,460**	**P693,460**	**P692,980**	**P480**	**P693,460**	**P693,460**
Risk-weighted on-balance sheet assets covered by CRM				**P96**	**P96**	

	December 31, 2014					
	Guaranteed Portion	Total Exposures Covered by CRM	Risk Weights 0%	Risk Weights 20%	Total	Total exposures Covered by CRM, Gross of Materiality Threshold
Loans and Receivables						
Private corporations	P381,120	P381,120	P380,349	P771	P381,120	P381,120
Loans to individuals for consumption and other purposes	322,621	322,621	322,621	-	322,621	322,621
Total exposures covered by CRM	P703,741	P703,741	P702,970	P771	P703,741	P703,741
Risk-weighted on-balance sheet assets covered by CRM				P154	P154	

Liquidity Risk and Funding Management

Liquidity risk is the risk to the Bank's earnings and capital arising from its inability to meet funding requirements in a timely manner. The Bank monitors future cash flows and liquidity on a daily basis. To ensure sufficient liquidity, the Bank has a set of internal limits included in its annual budget that allocates a portion of its liabilities into cash, investment securities and other liquid assets.

The Bank has available credit lines from various counterparties that it can utilize to meet sudden liquidity demands. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. A contingency funding plan, which covers quantitative and procedural measures, is in place and may be applied under different stress scenarios. The Bank also manages its liquidity position through the monitoring of a Maximum Cumulative Outflow limit. This process measures and estimates projected funding requirements that the Bank will need at specific time periods.

There has been no change to the Bank's exposure to liquidity and funding management risk or the manner in which it manages and measures the risk since prior financial year.

Analysis of Financial Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as at December 31, 2015 and 2014 based on contractual undiscounted repayment obligations (in thousands).

	December 31, 2015					
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Total**
Deposit liabilities:						
Demand	**P24,045,718**	**P -**	**P -**	**P -**	**P -**	**P24,045,718**
Savings	**17,335,767**	**60,620,457**	**1,605,561**	**-**	**-**	**79,561,785**
Time	**69,425**	**8,827,689**	**3,235,144**	**1,746,813**	**-**	**13,879,071**
Bills payable	**-**	**18**	**53**	**540**	**371**	**982**
Manager's check	**-**	**500,112**	**-**	**-**	**-**	**500,112**
Accrued interest and other expenses*	**-**	**434,691**	**-**	**-**	**-**	**434,691**
Other liabilities**	**-**	**-**	**1,704,215**	**260,893**	**-**	**1,965,108**
Total undiscounted financial liabilities	**P41,450,910**	**P70,382,967**	**P6,544,973**	**P2,008,246**	**P371**	**P120,387,467**

**amounts exclude accrued employee and other benefits, accrued taxes payable and accrued lease liability*
***amounts exclude withholding tax payable and retirement liability*

	December 31, 2014					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Deposit liabilities:						
Demand	P19,873,041	P -	P -	P -	P -	P19,873,041
Savings	17,277,557	63,904,218	2,736,622	-	-	83,918,397
Time	36,199	11,236,139	3,964,766	772,088	-	16,009,192
Bills payable	-	21	63	660	407	1,151
Manager's check	-	544,153	-	-	-	544,153
Accrued interest and other expenses*	-	372,723	-	-	-	372,723
Other liabilities**	-	-	2,074,907	256,058	-	2,330,965
Total undiscounted financial liabilities	P37,186,797	P76,057,254	P8,776,358	P1,028,806	P407	P123,049,622

** amounts exclude accrued employee and other benefits, accrued taxes payable and accrued lease liability*
***amounts exclude withholding tax payable and retirement liability*

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments (in thousands):

	December 31, 2015				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Commitments	**P -**	**P2,760,338**	**P3,369,041**	**P1,029,913**	**P7,159,292**
Contingent liabilities	**22,388,696**	**2,090,766**	**79,028**	**3,319,660**	**27,878,150**
	P22,388,696	**P4,851,104**	**P3,448,069**	**P4,349,573**	**P35,037,442**

	December 31, 2014				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Commitments	P -	P976,325	P2,327,661	P2,954,946	P6,258,932
Contingent liabilities	16,500,594	1,396,462	89,085	4,116,932	22,103,073
	P16,500,594	P2,372,787	P2,416,746	P7,071,878	P28,362,005

Market Risk

Market risk is the potential loss that may arise from decrease in earnings due to the decline in prices or present value of future cash flows of financial instruments. The value of these financial instruments may change as a result of changes in interest rates, foreign exchange rates, equity prices and other market changes. The Bank's market risk originates from its inventory of foreign exchange, debt and equity securities and freestanding derivatives.

There has been no change to the Bank's exposure to market risk or the manner in which it manages and measures the risk since prior financial year.

BSP Regulatory Reporting - Market Risk

Market risk-weighted assets by type of exposure as at December 31, 2015 and 2014 as reported to the BSP follows (amounts in thousands):

	2015	2014
Interest rate exposures	**P1,052,448**	P209,402
Foreign exposures	**133,867**	528,181
	P1,186,315	P737,583

Interest Rate Risk

One of the Bank's primary business functions is providing financial products that meet the needs of its customers. Loans and deposits are tailored to the customers' requirements. Net Interest Income (NII) is the difference between the yield earned on the assets and the rate paid on the liabilities (including customer deposits or the Bank's borrowings).

NII in the current period is the result of customer transactions and the related contractual rates originated in prior periods as well as new transactions in the current period; those prior period transactions will be impacted by changes in rates on floating rate assets and liabilities in the current period.

The Bank's financial performance is subject to some degree of risk due to changes in interest rates. In order to manage these risks effectively, the Bank modified the pricing on new customer loans subject to the BRR policy. The BRR is the evaluation of the creditworthiness of an existing or prospective borrower. The account is evaluated independent of any influence from any transactional factors. BRR for asset size of P15.0 million and above measures the customers' credit quality by looking into 3 major aspects, namely, financial condition, industry analysis and management quality. BRR for asset size of below P15.0 million measures the customers' credit quality using the Cash, Relationship, Administration, Market, Production and Security analysis.

The Bank also measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of asset-liability gap analysis on a monthly basis. This analysis focuses on the repricing profile of its rate sensitive assets and liabilities, and its influence on the Bank's accrual earnings. The interest rate repricing gap report assigns all assets and liabilities into various time buckets according to the remaining days to maturity for fixed rate, or remaining days to next re-pricing for floating rate, or based on behavioral assumptions if more applicable. Loans, investments and deposits are entered in the time band according to its contracted maturity if fixed rate or to its next re-pricing date if floating. Moreover, the Bank assumes no prepayment on the loans. Cash and non-maturity deposits on the other hand, are considered non-rate sensitive.

The difference between the total of the repricing (interest rate-sensitive) assets and repricing (interest rate-sensitive) liabilities gives an indication of the Bank's repricing risk exposure. A positive gap means more assets mature or have to be repriced than liabilities. In this case, the bank is said to be "asset sensitive" in that time bucket and it benefits from an increase of interest rates as the assets will be repriced faster than liabilities.

A bank with a negative gap is considered "liability sensitive" since it has more liabilities to be repriced during such period than assets. It is negatively affected by a hike in interest rates. An example would be a bank that uses short-term deposits to fund long-term loans at fixed rates. It may encounter a decline in its net interest income if the interest rates increase since the cost of funds (the deposit rates) will increase while the earnings from loans remain fixed.

BSP Regulatory Reporting - Interest Rate Risk

The table set forth the Bank's interest rate repricing gap as at December 31, 2015 and 2014, based on reporting made to BSP.

	December 31, 2015								
In Millions	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1 -3 Years	3-5 Years	Beyond 5 Years	Non-rate Sensitive	Total
RESOURCES									
Cash and COCI	P -	P -	P -	P -	P -	P -	P -	P2,254	P2,254
Due from BSP	29,100	-	-	-	-	-	-	20,702	49,802
Due from other banks	-	-	-	-	-	-	-	7,317	7,317
Interbank loans receivable	1,177	100	-	-	-	-	-	-	1,277
Financial assets at FVPL	-	-	-	-	-	-	-	1,702	1,702
Available-for-sale securities - net	2,490	5,502	7,508	250	196	1,016	6,346	-	23,308
Other investments - net	-	-	-	-	-	-	-	174	174
Loans - net	8,448	11,347	864	1,611	5,723	4,812	6,252	849	39,906
Other resources	503	16	15	-	-	-	-	9,753	10,287
	P41,718	P16,965	P8,387	P1,861	P5,919	P5,828	P12,598	P42,751	P136,027
LIABILITIES AND EQUITY									
Deposit liabilities	P48,491	P20,943	P3,184	P1,618	P585	P969	P -	P41,382	P117,172
Demand deposits	-	-	-	-	-	-	-	24,046	24,046
Savings deposits	-	-	-	-	-	-	-	17,336	17,336
Time deposits	48,491	20,943	3,184	1,618	585	969	-	-	75,790
Bills payable	-	-	-	-	0.1	0.2	0.4	-	0.7
Other liabilities	-	-	-	-	-	-	-	3,481	3,481
	48,491	20,943	3,184	1,618	585	969	0.4	44,863	120,654
Capital funds	-	-	-	-	-	-	-	15,373	15,373
	P48,491	P20,943	P3,184	P1,618	P585	P969	P0.4	P60,236	P136,027
Total periodic gap	(P6,773)	(P3,978)	P5,203	P243	P5,334	P4,859	P12,598	(P17,485)	

	December 31, 2014								
In Millions	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1 -3 Years	3-5 Years	Beyond 5 Years	Non-rate Sensitive	Total
RESOURCES									
Cash and COCI	P -	P -	P -	P -	P -	P -	P -	P2,326	P2,326
Due from BSP	28,550	-	-	-	-	-	-	20,649	49,199
Due from other banks	-	-	-	-	-	-	-	7,980	7,980
Interbank loans receivable	1,259	-	-	-	-	-	-	-	1,259
Financial assets at FVPL	-	-	-	-	-	-	-	353	353
Available-for-sale securities - net	1,846	3,998	5,560	7,382	1,001	668	7,375	(91)	27,739
Other investments - net	-	-	-	-	-	-	24	151	175
Loans - net	19,397	17,762	22	4	-	-	1,000	1,366	39,551
Other resources	667	27	2	-	-	-	-	9,850	10,546
	P51,719	P21,787	P5,584	P7,386	P1,001	P668	P8,399	P42,584	P139,128
LIABILITIES AND EQUITY									
Deposit liabilities	P64,867	P10,252	P3,548	P3,037	P732	P -	P -	P37,150	P119,586
Demand deposits	-	-	-	-	-	-	-	19,873	19,873
Savings deposits	-	-	-	-	-	-	-	17,277	17,277
Time deposits	64,867	10,252	3,548	3,037	732	-	-	-	82,436
Bills payable	-	-	-	-	-	0.4	0.4	-	0.8
Other liabilities	-	-	-	-	-	-	-	3,952	3,952
	64,867	10,252	3,548	3,037	732	0.4	0.4	41,102	123,539
Capital funds	-	-	-	-	-	-	-	15,589	15,589
	P64,867	P10,252	P3,548	P3,037	P732	P0.4	P0.4	P56,691	P139,128
Total periodic gap	(P13,148)	P11,535	P2,036	P4,349	P269	P668	P8,399	(P14,107)	

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's results of operations and OCI:

	December 31, 2015			
Currency	**Changes in Interest Rates (In Basis Points)**	**Sensitivity Of Net Interest Income (In Millions)**	**Sensitivity Of Trading Gains - net on FA at FVPL (In Millions)**	**Sensitivity Of Other Comprehensive Income (In Millions)**
PHP	**+200**	**(P128)**	**(P257)**	**(P2,578)**
USD	**+100**	**1**	**(36)**	**(195)**
PHP	**-200**	**128**	**257**	**2,578**
USD	**-100**	**(1)**	**36**	**195**

	December 31, 2014			
Currency	Changes in Interest Rates (In Basis Points)	Sensitivity Of Net Interest Income (In Millions)	Sensitivity Of Trading Gains - net on FA at FVPL (In Millions)	Sensitivity Of Other Comprehensive Income (In Millions)
PHP	+200	(P139)	(P28)	(P3,580)
USD	+100	3	(11)	(524)
PHP	-200	139	28	3,580
USD	-100	(3)	11	524

The sensitivity of the results of operations is measured as the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate of financial assets and financial liabilities held as at December 31, 2015 and 2014. The sensitivity of Trading gains - net and OCI is calculated by revaluing fixed-rate financial assets at FVPL and AFS debt securities, respectively as at December 31, 2015 and 2014. The total sensitivity of OCI is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

Equity Price Risk
Given the nature and amount of the Bank's equity investments portfolio in 2015 and 2014, management believes the Bank's exposure to equity price risk is considered minimal.

Currency Risk
Foreign currency deposits are generally used to fund the foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities held in the FCDU with foreign currency assets. In addition, BSP requires a 30.0% liquidity reserve on all foreign currency liabilities held in the FCDU.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Bank believes that its profile of foreign currency exposure based on its assets and liabilities is within conservative limits for a financial institution engaged in a type of business similar to that of the Bank.

The Bank employs risk limits and analytical models to manage the risk that possible interest or currency movements pose. Such limits are prudently set and the position status is monitored on a daily basis.

The table below summarizes the Bank's exposure to foreign exchange risk as at December 31, 2015 and 2014. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency (based on USD equivalents in thousands):

	December 31, 2015			
	USD	**Euro**	**Others**	**Total**
Assets				
Due from other banks	**\$3,249**	**\$542**	**\$1,897**	**\$5,688**
Interbank loans receivable	**6,200**	**-**	**-**	**6,200**
Loans and receivables	**2,243**	**-**	**-**	**2,243**
Total assets	**11,692**	**542**	**1,897**	**14,131**
Liabilities				
Deposit liabilities	**-**	**708**	**-**	**708**
Other liabilities	**104**	**5**	**12**	**121**
Total liabilities	**104**	**713**	**12**	**829**
Net Exposure	**\$11,588**	**(\$171)**	**\$1,885**	**\$13,302**

	December 31, 2014			
	USD	Euro	Others	Total
Assets				
Due from other banks	\$1,827	\$857	\$958	\$3,642
Interbank loans receivable	11,150	-	-	11,150
Loans and receivables	3,673	-	-	3,673
Total assets	16,650	857	958	18,465
Liabilities				
Deposit liabilities	-	978	-	978
Other liabilities	75	-	15	90
Total liabilities	75	978	15	1,068
Net Exposure	\$16,575	(\$121)	\$943	\$17,397

The table below indicates the currencies which the Bank has significant exposure to as at December 31, 2015 and 2014 based on its foreign currency-denominated assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of other currency rates against the PHP, with all other variables held constant on the results of operations (due to the fair value of currency sensitive monetary assets and liabilities) and OCI. A negative amount in the table reflects a potential net reduction of net income or OCI while positive amount reflects a net potential increase. Change in currency rates are based on the historical movements of each currency for the same period:

	Philippine Peso Appreciates by	**Effect on Profit before Tax** (In Millions)	**Philippine Peso Depreciates by**	**Effect on Profit before Tax** (In Millions)
December 31, 2015				
Currency				
USD	**P1.00**	**(P11.59)**	**(P1.00)**	**P11.59**
Euro	**0.50**	**0.09**	**(0.50)**	**(0.09)**
Others	**0.40**	**(0.75)**	**(0.40)**	**0.75**

	Philippine Peso Appreciates by	Effect on Profit before Tax (In Millions)	Philippine Peso Depreciates by	Effect on Profit before Tax (In Millions)
December 31, 2014				
Currency				
USD	P1.00	(P16.58)	(P1.00)	P16.58
Euro	0.50	0.06	(0.50)	(0.06)
Others	0.40	(0.38)	(0.40)	0.38

There is no other impact on the Bank's equity other than those already affecting profit or loss.

6. Categories and Fair Value Measurement

The methods and assumptions used by the Bank in estimating the fair values of financial and nonfinancial assets and liabilities are as follows:

COCI, Due from BSP and Other Banks and Interbank Loans Receivable - Fair values approximate carrying amounts given the short-term nature of the instruments.

Investments in Quoted Debt Securities - Fair values are based on quoted market prices.

Investments in Unquoted Debt Securities - Since the market prices are not readily available, the Bank estimates their fair values using the adjusted quoted market prices of comparable securities or estimates provided by counterparties.

Loans and Receivables - The estimated fair value of receivables from customers and long-term sales contract receivables are equivalent to the estimated future cash flows expected to be received discounted using current market rates. Fair value of short-term sales contract receivables, accounts receivables, accrued interest receivables and RCOCI approximates carrying amounts given the short-term nature of the accounts.

Investment Properties - Fair value is determined by reference to market-based evidence. This is derived on the basis of recent sales of similar properties in the same areas where the investment properties are located taking into account the economic conditions prevailing at the time the valuations are made.

Property and Equipment - Fair value is determined by reference to market-based evidence. The valuations performed by the appraisers are based on market prices of similar properties in the same areas the land and building are located, adjusted for any difference in the nature, location or condition of the specific property.

Deposit Liabilities - Fair values of time deposits are estimated using the discounted cash flow methodology, where future cash flows are discounted using the current market rate and with maturities consistent with those remaining for the liability being valued. For demand and savings deposits, carrying amounts approximate fair values considering that these are currently due and demandable.

Bills Payables - Fair values are estimated using the discounted cash flow methodology, where future cash flows are discounted using the current market rate and with maturities consistent with those remaining for the liability being valued.

Manager's Checks and Accrued Interest and Other Expense - Carrying amounts approximate fair values due to the short-term nature of the accounts.

Derivative Instruments (both Freestanding and Embedded) - Fair values are determined based on published quotes or price valuations provided by counterparties or calculations using market-accepted valuation techniques.

Fair Value Hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - quoted (unadjusted) market prices 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 liabilities, 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).

For assets and liabilities that are recognized in the financial statements on a recurring basis, such as financial assets at FVPL, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The following table provides the fair value hierarchy of the Bank's assets and liabilities measured at fair value and those for which fair values should be disclosed (in thousands):

	December 31, 2015				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL:					
Government securities held for trading	P1,677,625	P1,677,625	P -	P -	P1,677,625
Derivative assets	23,530	-	23,530	-	23,530
Other debt securities	317	317	-	-	317
AFS securities:					
Quoted government securities	18,063,708	18,063,708	-	-	18,063,708
Quoted other debt securities	4,453,543	4,453,543	-	-	4,453,543
Unquoted debt securities	790,896	-	790,896	-	790,896
Quoted equity securities	106,605	106,605	-	-	106,605
	25,116,224	24,301,798	814,426	-	25,116,224
Nonfinancial Assets					
Investment properties	5,401,420	-	5,401,420	-	5,401,420
Property and equipment*	1,428,033	-	1,428,033	-	1,428,033
	P31,945,677	P24,301,798	P7,643,879	P -	P31,945,677
Assets for which Fair Values are Disclosed					
Financial Assets					
Loans and receivables:					
Receivable from customers	P40,675,844	P -	P42,986,549	P -	P42,986,549
Less unearned interest	28,159	-	28,159	-	28,159
	40,647,685	-	42,958,390	-	42,958,390
Sales contract receivables	865,147	-	972,751	-	972,751
	P41,513,002	P -	P43,931,141	P -	P43,931,141

Forward

	December 31, 2015				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Time deposit liabilities	**P13,647,607**	**P -**	**P13,617,038**	**P -**	**P13,617,038**
Bills payable	**689**	**-**	**836**	**-**	**836**
	P13,648,296	**P -**	**P13,617,874**	**P -**	**P13,617,874**

**Land and building*

	December 31, 2014				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL:					
Government securities held for trading	P329,456	P329,456	P -	P -	P329,456
Derivative assets	22,360	-	22,360	-	22,360
Other debt securities	1,391	1,391	-	-	1,391
AFS securities:					
Quoted government securities	22,933,705	22,933,705	-	-	22,933,705
Quoted other debt securities	4,009,261	4,009,261	-	-	4,009,261
Unquoted debt securities	795,924	-	795,924	-	795,924
Quoted equity securities	106,605	106,605	-	-	106,605
	28,198,702	27,380,418	818,284	-	28,198,702
Nonfinancial Assets					
Investment properties	4,572,699	-	4,572,699	-	4,572,699
Property and equipment*	1,593,877	-	1,593,877	-	1,593,877
	P34,365,278	P27,380,418	P6,984,860	P -	P34,365,278
Assets for which Fair Values are Disclosed					
Financial Assets					
Loans and receivables:					
Receivable from customers	P40,766,547	P -	P41,396,683	P -	P41,396,683
Less unearned interest	56,268	-	56,268	-	56,268
	40,710,279	-	41,340,415	-	41,340,415
Sales contract receivable	1,153,995	-	1,359,059	-	1,359,059
	P41,864,274	P -	P42,699,474	P -	P42,699,474
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Time deposit liabilities	P15,861,859	P -	P15,874,412	P -	P15,874,412
Bills payable	828	-	1,028	-	1,028
	P15,862,687	P -	P15,875,440	P -	P15,875,440

**Land and building*

For 2015 and 2014, there have been no transfers into and out of each of the levels of the fair value hierarchy.

As at December 31, 2015 and 2014, the carrying values of the Bank's financial assets and financial liabilities, not included in the table above, as reflected in the statements of financial position and related notes approximate their respective fair values.

Fair value information has not been disclosed for the Bank's unquoted equity securities included under "AFS securities" that are carried at cost because fair value cannot be measured reliably. These equity securities represent ordinary shares from a foreign financial institution and a telecommunications company that are not quoted on any market. The Bank does not intend to dispose of this investment in the foreseeable future.

7. Interbank Loans Receivable

Interbank loans receivable amounted to P5.4 billion and P5.7 billion as at December 31, 2015 and 2014, respectively.

Interest income on interbank loans receivable amounted to P18.2 million and P12.0 million in 2015 and 2014, respectively.

In 2015 and 2014, peso-denominated interbank loans receivable bear interest rates ranging from 2.5% to 2.6% and from 2.0% to 3.2%, respectively. Dollar-denominated interbank loans receivable bear interest rates ranging from 0.1% to 0.8% and from 0.1% to 1.0% in 2015 and 2014, respectively.

8. Financial Assets at Fair Value through Profit or Loss

Financial assets at FVPL consist of:

	2015	2014
Government securities held for trading	**P1,677,624,660**	P329,456,496
Derivative assets	**23,530,000**	22,360,000
Private debt securities held for trading	**317,113**	1,391,014
	P1,701,471,773	P353,207,510

As at December 31, 2015 and 2014, financial assets and liabilities through FVPL are adjusted for unrealized loss of P72.5 million and unrealized gain of P5.2 million, respectively (see Note 26).

As at December 31, 2015 and 2014, there are no outstanding embedded derivatives under the "Financial assets and financial liabilities at FVPL" in the statements of financial position.

<u>Derivative Financial Instruments</u>
The table below shows the fair values of derivative financial instruments entered into by the Bank, recorded as derivative assets or derivative liabilities, together with the notional amount and leverage exposure. The leverage exposure is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The leverage exposure indicates the volume of transactions outstanding as at December 31, 2015 and 2014 and is not indicative of either market risk or credit risk.

	December 31, 2015			December 31, 2014		
	Derivative Assets	**Notional Amount**	**Leverage Exposure**	Derivative Assets	Notional Amount	Leverage Exposure
Freestanding derivatives:						
Warrants	**P23,530,000**	**$50,000**	**$ -**	P22,360,000	$50,000	$ -

9. Available-for-Sale Securities

This account consists of:

	Note	**2015**	2014
Quoted AFS Securities			
Government securities		**P18,063,707,612**	P22,933,705,333
Other debt securities		**4,453,542,790**	4,009,261,129
Quoted equity securities, net of allowance for impairment losses of P40.1 million as at December 31, 2015 and 2014	*16*	**106,605,293**	106,605,293
		22,623,855,695	27,049,571,755
Unquoted AFS Securities			
Debt securities	*36*	**790,896,041**	795,923,929
Equity securities, net of allowance for impairment losses of P300.0 million and P300.1 million as at December 31, 2015 and 2014, respectively	*16*	**34,897,641**	35,743,895
		P23,449,649,377	P27,881,239,579

Quoted AFS Securities

In September 2015, the Bank participated in a bond exchange transaction affecting its AFS securities and received 10-year and 25-year bonds with coupons ranging from 3.6% to 4.6% with total face value of P5.6 billion, at a price equivalent to the ratio of the Eligible Bond Repurchase Price to the New Benchmark Bond Issue Price for every P1.0 principal amount of each Eligible Bonds offered. The Bank realized a net trading loss of P14.4 million (see Note 26).

Unquoted AFS Securities

Unquoted AFS securities include investment in MRT bonds. In 2014, the Bank changed its estimates of the timing of collection of its investment in the said bonds which are now based on the revised payment schedule that was made available to the Bank in 2014. The change in estimate resulted in acceleration of the accretion of discount resulting to an increase in the original amortized cost of MRT bonds. The effect of the change in estimate amounting to $4.6 million (equivalent to P203.5 million), which was accounted for prospectively, is recognized under “Interest income on trading and investment securities” account in the statements of income in accordance with PAS 8 and PAS 39. Under PAS 39, if an entity revises its estimates of receipts, the entity shall adjust the carrying amount of the financial asset to reflect actual and revised estimated cash flows. The entity is required to recalculate the carrying amount by computing the present value of estimated future cash flows at the original EIR. Under PAS 8, the effect of a change in an accounting estimate shall be recognized prospectively by including it in statements of income in the period of change.

Unquoted AFS securities include also the Bank’s 8.57% equity interest in Banco National de Guinea Equatorial (BANGE) as part of its partnership with the National Government of the Republic of Equatorial Guinea (see Note 33).

Reclassification
In February, March and September 2014, the Bank's management decided to transfer certain GS under "AFS securities" account to "HTM investments" account in the statements of financial position with a total face value of P8.0 billion and $34.0 million, for peso-denominated and dollar-denominated securities, respectively (see Note 24). The amortized cost and the fair value of these securities at the date of reclassification amounted to P13.4 billion and P12.2 billion, respectively.

On December 11, 2014, the Bank reclassified certain GS from HTM investments to AFS securities with carrying value and fair value of P11.1 billion and P11.8 billion, respectively. In addition, the Bank sold a portion of its HTM investments with carrying value amounting to P249.9 million, which resulted in a loss of P3.7 million (see Note 26). Pursuant to the requirements of PFRS, if the Bank were to reclassify or sell more than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and shall be reclassified as AFS securities measured at fair value. Moreover, the Bank is prohibited from designating securities to HTM category for the next 2 financial years (2015 and 2016). The carrying value and fair value of the reclassified HTM investments at the date of reclassification amounted to P8.0 billion and P8.2 billion, respectively.

Net Unrealized (Losses) Gains on AFS Securities
The movements of net unrealized (losses) gains on AFS securities follow:

	Note	**2015**	2014
Balance at beginning of year		**P447,296,136**	(P576,891,214)
Net unrealized (loss) gain recognized as OCI		**(325,722,716)**	1,214,687,688
Realized gains taken to profit or loss	*26*	**(508,129,617)**	(190,500,338)
Balance at end of year		**(P386,556,197)**	P447,296,136

10. Loans and Receivables

This account consists of:

	Note	**2015**	2014
Receivables from customers:			
Term loans		**P34,287,780,250**	P35,302,739,439
Bills purchased, import bills and trust receipts	*20*	**953,932,176**	1,515,229,920
Direct advances		**902,651,646**	824,846,678
Agri-agra loans		**432,244,397**	361,067,788
Others		**5,483,054,603**	4,226,018,711
		42,059,663,072	42,229,902,536
Less unearned interest income		**28,158,656**	56,268,293
		42,031,504,416	42,173,634,243

Forward

	Note	2015	2014
Accounts receivable		**P876,748,552**	P797,054,667
Sales contracts receivable		**866,185,352**	1,155,548,355
Accrued interest receivable:			
Loans and receivables		**482,601,855**	532,113,667
Trading and investment securities		**225,700,087**	302,217,083
Due from BSP and other banks		**4,546,875**	4,546,007
Interbank loans receivable		**174,751**	259,968
Unquoted debt securities	*36*	**291,578,196**	613,122,002
Returned checks and other check items		**1,220,469**	5,896,609
		44,780,260,553	45,584,392,601
Less allowance for credit losses	*16*	**2,338,500,959**	2,745,206,300
		P42,441,759,594	P42,839,186,301

Bills purchased, import bills and trust receipts includes bills purchased with contra account in "Miscellaneous liabilities" under "Other Liabilities" amounting to P0.7 billion and P1.2 billion as at December 31, 2015 and 2014, respectively (see Note 20).

Other receivables from customers pertains to consumer loans such as benefit loans, auto loans, housing loans, salary loans, and credit cards.

Sales contracts receivable arise mainly from the sale of foreclosed properties booked under "Investment properties" and "Non-current assets held for sale" accounts. Accounts receivable mainly consists of amounts due from customers and other parties under open-account arrangements, advances from buyers of foreclosed properties, receivables from employees and other miscellaneous receivables.

Regulatory Reporting

As at December 31, 2015 and 2014, the breakdown of receivables from customers as to collateral follows (amounts in thousands, except percentages):

	2015		2014	
	Amount	**%**	Amount	%
Loans secured by:				
Real estate	**P5,763,856**	**13.7**	P5,356,342	12.7
Chattel	**1,503,378**	**3.6**	2,928,918	6.9
Deposit hold-out	**749,615**	**1.8**	778,199	1.8
Deed of assignment and others	**8,979,237**	**21.3**	6,155,754	14.6
	16,996,086	**40.4**	15,219,213	36.0
Unsecured	**25,063,577**	**59.6**	27,010,690	64.0
	P42,059,663	**100.0**	P42,229,903	100.0

As at December 31, 2015 and 2014, information on the concentration of credit as to industry follows (amounts in thousands, except percentages):

	2015		2014	
	Amount	**%**	Amount	%
Construction	**P8,284,949**	**19.7**	P7,075,999	16.8
Real estate activities	**6,512,759**	**15.5**	4,339,069	10.3
Financial and insurance activities	**4,368,754**	**10.4**	3,338,638	7.9
Wholesale and retail trade, repair of motor vehicles and motorcycles	**4,347,126**	**10.3**	5,302,218	12.6
Electricity, gas, steam, and air-conditioning supply	**4,168,576**	**9.9**	4,601,964	10.9
Administrative and support service activities	**3,810,327**	**9.1**	3,838,550	9.1
Transportation and storage	**2,464,935**	**5.9**	1,744,525	4.1
Accommodation and food service activities	**2,201,335**	**5.2**	2,592,654	6.1
Manufacturing	**1,884,730**	**4.4**	5,551,752	13.1
Information and communication	**38,531**	**0.1**	549,084	1.3
Others*	**3,977,641**	**9.5**	3,295,450	7.8
	P42,059,663	**100.0**	P42,229,903	100.0

**Others include Agriculture, Forestry and Fishing, Education, Arts, Entertainment and Recreation, and other various activities*

BSP considers that concentration of credit risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.0% of total loan portfolio. The BROC constantly monitors the credit risk concentration of the Bank.

Under Section X309.1 of MORB, NPLs refer to loans whose principal and/or interest remain unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming. In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when 3 or more installments are in arrears.

In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, (i.e. the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10.0% of the total receivable balance).

Effective January 1, 2013, the exclusion of NPLs classified as loss and are fully covered by allowance was removed by the BSP in the non-performing classification through Circular No. 772. In addition, BSP Circular No. 772 requires banks to compute their net NPLs by deducting the specific allowance for credit losses on the total loan portfolio (inclusive of interbank loans receivable) from the gross NPLs. The specific allowance for credit losses shall not be deducted from the total loan portfolio in computing the NPL ratio.

As at December 31, 2015 and 2014, the NPLs of the Bank, as reported to the BSP are as follows:

	2015	2014
Gross NPLs	**P1,883,474**	P2,574,469
Less deductions as required by the BSP	**1,817,867**	1,965,880
Net NPLs	**P65,607**	P608,589

Gross and net NPL ratios of the Bank are 4.4% and 0.2%, respectively, as at December 31, 2015 and 5.9% and 1.4%, respectively, as at December 31, 2014.

As at December 31, 2015 and 2014, restructured loans amounted to P1.3 billion. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs. As at December 31, 2015 and 2014, restructured receivables from customers considered as NPLs amounted to P0.5 billion and P0.6 billion, respectively.

Interest Income on Loans and Receivables
This account consists of:

	Note	2015	2014
Receivable from customers:			
Term loans		**P1,797,341,788**	P1,887,104,370
Direct advances		**40,833,494**	40,644,677
Agri-agra loans		**33,618,615**	21,487,917
Bills purchased, import bills and trust receipts		**9,753,671**	23,717,504
Others		**550,238,595**	554,252,132
		2,431,786,163	2,527,206,600
Sales contract receivable		**50,076,842**	71,000,084
Unquoted debt securities	*36*	**-**	9,610,241
		P2,481,863,005	P2,607,816,925

As at December 31, 2015 and 2014, 58.4% and 75.3%, respectively, of the total receivables from customers were subject to periodic interest repricing. Peso-denominated loans earn annual fixed interest rates ranging from 1.0% to 54.0% in 2015 and 2014. Dollar-denominated loans earn annual fixed interest rates ranging from 0.1% to 13.0% in 2015 and from 0.0% to 13.0% in 2014.

Unquoted debt instruments bear fixed interest rates per annum of 8.0% in 2014.

Sales contracts receivable bear fixed interest rates ranging from 2.7% to 14.3% and 2.7% to 19.0% in 2015 and 2014, respectively.

11. Non-current Assets Held for Sale

As at December 31, 2015 and 2014, these non-current assets were stated at carrying amount and comprised the following:

	2015			2014		
	Land	**Buildings**	**Total**	Land	Buildings	Total
Balance at beginning of year	**P152,745,965**	**P69,145,933**	**P221,891,898**	P140,464,905	P101,277,482	P241,742,387
Additions	**59,038**	**-**	**59,038**	-	-	-
Reclassifications	**(128,134,184)**	**(8,633,859)**	**(136,768,043)**	74,479,943	15,497,305	89,977,248
Disposals	**(13,514,652)**	**(2,421,404)**	**(15,936,056)**	(62,198,883)	(47,628,854)	(109,827,737)
Balance at end of year	**P11,156,167**	**P58,090,670**	**P69,246,837**	P152,745,965	P69,145,933	P221,891,898

In 2015 and 2014, gains on sale of non-current assets held for sale amounted to P31.2 million and P49.6 million, respectively.

There is no cumulative income or expenses included in OCI relating to non-current assets held for sale.

12. Investment in Associate

The details of movements of the Bank's equity investment in BIC follow:

	Note	**2015**	2014
Acquisition cost (24.25%-owned)		**P75,395,200**	P75,395,200
Accumulated equity in net loss and OCI:			
Balance at beginning of year		**(16,986,827)**	(17,787,073)
Share in net (loss) income		**(1,630,078)**	1,553,338
Share in other comprehensive loss		**(9,041)**	(82,983)
Other adjustments		**(1,672,228)**	(670,109)
Balance at end of year		**(20,298,174)**	(16,986,827)
Allowance for impairment loss	*16*	**(5,925,786)**	(3,794,606)
		P49,171,240	P54,613,767

The following table shows the summarized financial information of BIC:

	2015**	2014*
Assets	**P205,422,477**	P212,922,474
Liabilities	**(2,654,598)**	(3,395,220)
Net assets	**202,767,879**	209,527,254
Revenues	**3,072,137**	1,897,477
Net (loss) income for the year	**(6,721,970)**	4,520,078
Other comprehensive loss for the year	**(37,283)**	(4,974,242)
Total comprehensive loss for the year	**(6,759,253)**	(454,164)

**Based on 2014 audited financial statements*
***Based on 2015 unaudited numbers*

During the BOD meeting on January 18, 2011, the Board of the Bank approved a resolution which provides that the Bank is not willing to invest in additional capital stock of BIC and that it is willing to sell its shares in BIC to any interested and qualified buyer. Further, the Bank will formally request BIC to amend its Articles of Incorporation to reflect a change of name in order to remove Bancommerce from its name, the Bank not being a majority stockholder of the investee, and not having any participation in its operations.

On April 18, 2013, by a majority vote of BIC's BOD and by the vote of the stockholders owning or representing at least two-thirds of the outstanding capital stock, a motion has been presented and approved to change the corporate name from BIC Investment and Capital Corporation to BIC Management and Consultancy, Inc. and to amend its articles of incorporation to drop and withdraw its license as an investment house. BIC submitted a letter to the SEC dated April 22, 2013, about the report of corporate approval to amend the Articles of Incorporation to change the corporate name and the primary purpose of the corporation. On July 23, 2014, SEC approved the said change of corporate name and the amendment of its articles of incorporation.

As at December 31, 2015 and 2014, the Bank's subscribed capital stock in BIC amounted to P75.8 million out of the BIC's outstanding capital stock of P312.5 million.

13. Property and Equipment

The movements in property and equipment follow:

	December 31, 2015		
At Cost	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost			
Balance at January 1	**P1,627,456,736**	**P691,409,108**	**P2,318,865,844**
Additions	**115,008,950**	**24,091,497**	**139,100,447**
Disposals and others	**(95,156,000)**	**8,079**	**(95,147,921)**
Balance at December 31	**1,647,309,686**	**715,508,684**	**2,362,818,370**
Accumulated Depreciation and Amortization			
Balance at January 1	**1,211,012,408**	**556,758,176**	**1,767,770,584**
Depreciation and amortization	**128,354,536**	**44,371,318**	**172,725,854**
Disposals and others	**(43,897,117)**	**-**	**(43,897,117)**
Balance at December 31	**1,295,469,827**	**601,129,494**	**1,896,599,321**
Net Book Value at December 31	**P351,839,859**	**P114,379,190**	**P466,219,049**

		December 31, 2015		
At Appraised Values	***Note***	**Land**	**Buildings**	**Total**
Revalued Amount				
Balance at January 1		**P129,803,199**	**P1,478,807,000**	**P1,608,610,199**
Additions		**-**	**1,681,329**	**1,681,329**
Balance at December 31		**129,803,199**	**1,480,488,329**	**1,610,291,528**
Accumulated Depreciation				
Balance at January 1		**-**	**-**	**-**
Depreciation		**-**	**167,525,357**	**167,525,357**
Disposals and others		**-**	**-**	**-**
Balance at December 31		**-**	**167,525,357**	**167,525,357**
Allowance for impairment losses	*16*	**(14,733,200)**	**-**	**(14,733,200)**
Net Book Value at December 31		**P115,069,999**	**P1,312,962,972**	**P1,428,032,971**

At Cost	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
	December 31, 2014		
Cost			
Balance at January 1	P1,619,741,595	P670,818,654	P2,290,560,249
Additions	106,822,144	21,466,322	128,288,466
Disposals and others	(99,107,003)	(875,868)	(99,982,871)
Balance at December 31	1,627,456,736	691,409,108	2,318,865,844
Accumulated Depreciation and Amortization			
Balance at January 1	1,104,092,551	508,691,805	1,612,784,356
Depreciation and amortization	149,679,456	48,066,371	197,745,827
Disposals and others	(42,759,599)	-	(42,759,599)
Balance at December 31	1,211,012,408	556,758,176	1,767,770,584
Net Book Value at December 31	P416,444,328	P134,650,932	P551,095,260

At Appraised Values	*Note*	Land	Buildings	Total
		December 31, 2014		
Revalued Amount				
Balance at January 1		P60,677,573	P1,365,454,617	P1,426,132,190
Additions		-	1,027,391	1,027,391
Disposals and others		-	(21,503,392)	(21,503,392)
Fair value adjustments		69,125,626	133,828,384	202,954,010
Balance at December 31		129,803,199	1,478,807,000	1,608,610,199
Accumulated Depreciation				
Balance at January 1		-	406,476,265	406,476,265
Depreciation		-	50,548,454	50,548,454
Disposals and others		-	(2,217,302)	(2,217,302)
Adjustments*		-	(454,807,417)	(454,807,417)
Balance at December 31		-	-	-
Allowance for impairment losses	*16*	(14,733,200)	-	(14,733,200)
Net Book Value at December 31		P115,069,999	P1,478,807,000	P1,593,876,999

**Elimination of accumulated depreciation against gross carrying amount of buildings*

In 2015 and 2014, gains on sale of property and equipment amounted to P1.5 million and P23.2 million, respectively.

The Bank engaged various accredited independent appraisers to determine the fair value of its land and buildings. Fair value is determined by reference to market-based evidence. The valuations performed by the appraisers are based on market prices of similar properties in the same areas the land and building are located, adjusted for any difference in the nature, location or condition of the specific property. Land and buildings were appraised in 2014 and the Bank recognized increase in fair value of land and buildings of P657.8 million.

The fair value measurement for land and buildings has been categorized as a Level 2 recurring fair value based on the inputs to the valuation technique used (see Note 6).

Appraisal increment as presented under "Revaluation increment on property and equipment" account amounted to P404.4 million and P488.6 million, as at December 31, 2015 and 2014, respectively.

As at December 31, 2015 and 2014, the cost of fully depreciated property and equipment still in use amounted to P869.7 million and P775.3 million, respectively.

If land and buildings were measured using the cost model, the carrying amounts would have been as follows:

	December 31, 2015			December 31, 2014		
	Land	**Buildings**	**Total**	Land	Buildings	Total
Cost	**P41,570,353**	**P1,271,500,790**	**P1,313,071,143**	P41,570,353	P1,269,819,462	P1,311,389,815
Accumulated depreciation	**-**	**(448,071,781)**	**(448,071,781)**	-	(400,833,415)	(400,833,415)
	P41,570,353	**P823,429,009**	**P864,999,362**	P41,570,353	P868,986,047	P910,556,400

14. Investment Properties

The movements in investment properties follow:

	December 31, 2015		
	Land	**Buildings**	**Total**
Balance at January 1	**P3,437,899,194**	**P1,134,800,279**	**P4,572,699,473**
Additions	**223,798,278**	**133,806,925**	**357,605,203**
Changes in market value	**466,066,367**	**(15,771,659)**	**450,294,708**
Reclassifications	**128,134,184**	**8,633,859**	**136,768,043**
Disposals and others	**(77,289,486)**	**(38,657,456)**	**(115,946,942)**
Balance at December 31	**P4,178,608,537**	**P1,222,811,948**	**P5,401,420,485**

	December 31, 2014		
	Land	Buildings	Total
Balance at January 1	P2,851,420,051	P1,010,792,063	P3,862,212,114
Additions	481,882,001	206,519,793	688,401,794
Changes in market value	306,350,862	36,943,542	343,294,404
Reclassifications	(63,636,686)	(16,316,477)	(79,953,163)
Disposals and others	(138,117,034)	(103,138,642)	(241,255,676)
Balance at December 31	P3,437,899,194	P1,134,800,279	P4,572,699,473

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 properties in the same areas where the investment properties are located taking into account the economic conditions prevailing at the time the valuations were made. The recurring fair value measurement for investment property has been categorized as a Level 2 fair value based on the inputs to the valuation technique used (see Note 6).

Gain on foreclosure and sale of investment properties consists of the following:

	2015	2014
Gain on foreclosure	**P123,120,075**	P125,605,644
Gain on assets sold	**2,252,749**	8,201,899
	P125,372,824	P133,807,543

Rental income on investment properties (included in "Miscellaneous income" account in the statements of income) in 2015 and 2014 amounted to P5.2 million.

Direct operating expenses on investment properties that generated rental income (included under "Litigation and acquired assets" in "Other expenses - miscellaneous" account and "Taxes and licenses" account in the statements of income) in 2015 and 2014 amounted to P6.9 million and P10.9 million, respectively. Direct operating expenses on investment properties that did not generate rental income (included under "Litigation and acquired assets" in "Other expenses - miscellaneous" account and "Taxes and licenses" account in the statements of income) in 2015 and 2014 amounted to P71.9 million and P116.0 million, respectively.

15. Other Assets

This account consists of:

	Note	2015	2014
Withholding tax on PEACe bonds		**P580,336,854**	P580,336,854
Intangible assets*		**416,546,076**	455,134,114
Other properties acquired*		**15,025,219**	132,986,846
Miscellaneous assets	*22, 34*	**5,367,708,002**	5,240,047,760
		6,379,616,151	6,408,505,574
Less allowance for credit and impairment losses	*16*	**4,852,779,582**	4,875,775,922
		P1,526,836,569	P1,532,729,652

**net of accumulated amortization/depreciation, gross of allowance for impairment losses*

Withholding Tax on PEACe Bonds
This account represents capitalized taxes withheld by the Bureau of Treasury (BTr) when the Bank's investment in Poverty Eradication and Alleviation Certificates (PEACe) bonds matured on October 18, 2011. This was in relation to the Bureau of Internal Revenue (BIR) ruling No. 370 - 2011, dated October 7, 2011 imposing a 20.0% withholding tax on accumulated interest income on the PEACe bonds.

On October 17, 2011, the Bank, along with a consortium of other banks with investment in PEACe bonds filed a petition with the Supreme Court seeking a temporary restraining order (TRO) against the implementation of the said BIR ruling. The Supreme Court (SC) issued a TRO, and in a resolution, enjoined the implementation of the BIR ruling and directed that the 20.0% final withholding tax (FWT) on interest income from PEACe bonds withheld be remitted to the banks and placed in escrow account pending resolution of the petition.

In a Decision dated January 13, 2015, the SC *en banc* nullified BIR Ruling Nos. 370-211 and DA 378-2011, reprimanded the BTr for its continued retention of the amount corresponding to the 20.0% FWT despite the SC's directive in the TRO and ordered it to immediately release and pay the banks the amount corresponding to the 20.0% FWT.

The SC also stated that should the PEACe bonds be found to be within the coverage of deposit substitutes, the BTr must nevertheless pay the face value of the PEACe bonds to the banks and for the BTr to collect the unpaid FWT directly from the RCBC Capital (underwriter). Respondents BIR and BTR and intervenor RCBC and RCBC Capital sought a reconsideration of the above decision in March 2015, seeking the reversal of the above findings.

As at December 31, 2015, there was no report to the banks that a resolution has been issued by the SC on the reconsideration sought by the Respondents. The amount corresponding to the 20.0% FWT has not yet been remitted to the banks.

Based on Management's assessment of the current status, allowance for impairment losses on PEACe bonds amounted to P290.2 million as at December 31, 2015 and 2014.

Intangible Assets
Intangible assets consist of:

	2015	2014
Software costs*	**P356,546,076**	P395,134,114
Branch licenses	**60,000,000**	60,000,000
	416,546,076	455,134,114
Less allowance for impairment losses	**40,923,010**	40,923,010
	P375,623,066	P414,211,104

**net of accumulated amortization, gross of allowance for impairment losses*

Movements in software costs follow:

	2015	2014
Cost		
Balance at January 1	**P595,158,664**	P578,654,959
Additions	**60,191,661**	79,417,850
Write-offs and others	**(74,621,201)**	(62,914,145)
Balance at end of year	**580,729,124**	595,158,664
Accumulated Amortization		
Balance at January 1	**200,024,550**	114,612,644
Amortization for the year	**98,779,699**	97,346,489
Write-offs and others	**(74,621,201)**	(11,934,583)
Balance at end of year	**224,183,048**	200,024,550
Less allowance for impairment losses	**40,923,010**	40,923,010
Net Book Value	**P315,623,066**	P354,211,104

Other Properties Acquired
Movements in the other properties acquired follow:

	2015	2014
Cost		
Balance at January 1	**P132,986,846**	P120,233,350
Additions	**17,433,219**	12,753,496
Disposals	**(131,746,661)**	-
Balance at end of year	**18,673,404**	132,986,846
Accumulated Depreciation		
Balance at January 1	**-**	-
Depreciation for the year	**26,252,834**	-
Disposals	**(22,604,649)**	-
Balance at end of year	**3,648,185**	-
Less allowance for impairment losses	**190,080**	-
Net Book Value	**P14,835,139**	P132,986,846

In 2015, gain on foreclosure and sale of other properties acquired amounted to P0.2 million and P21.3 million, respectively.

Deferred Charges - Loss on Sale to SPV

The Bank sold certain nonperforming assets (NPAs) to special purpose vehicle (SPV) in 2007 and 2005. Pursuant to the requirements of PFRS, the losses arising from the sale of the NPAs amounting to P432.1 million and P1.5 billion in 2007 and 2005, respectively, were recognized in full in the period such losses were incurred. The NPLs were sold for cash to an SPV pursuant to Republic Act (RA) No. 9182, *The Special Purpose Vehicle Act of 2002*.

For its separate prudential reporting to the BSP, the Bank continues to defer and amortize the losses from the sale of NPLs over ten years as provided under RA No. 9182:

End of Period from Date of Transaction	Cumulative Write-down of Deferred Charges
Year 1	5%
Year 2	10%
Year 3	15%
Year 4	25%
Year 5	35%
Year 6	45%
Year 7	55%
Year 8	70%
Year 9	85%
Year 10	100%

For the purpose of computing the Bank's income tax expense, the loss is treated as an ordinary loss and will be carried over as a deduction from the Bank's taxable gross income for a period of 5 consecutive taxable years immediately following the year of sale.

Miscellaneous Assets

This account includes the following: a.) Sinking fund for the unpaid portion of the redemption price of preferred shares amounting to P260.9 million and P256.1 million as at December 31, 2015 and 2014, respectively, and b.) NPAs amounting to P4.4 billion and P4.5 billion as at December 31, 2015 and 2014, respectively, which were assumed by the Bank in connection with the Purchase and Sale Agreement (PSA) entered into by the Bank with Traders Royal Bank (TRB) in 2002 (see Note 34). Pursuant to the requirements of PFRS, the impairment losses on the NPAs amounting to P4.4 billion and P4.5 billion as at December 31, 2015 and 2014, respectively, were charged in full in the period incurred.

For its separate prudential reporting to the BSP, the Bank was allowed under the MB Resolution No. 1751, dated November 8, 2001, as further amended by MB Resolution No. 489, dated April 3, 2003 and pursuant to MB Resolution No. 1950, dated November 21, 2013, to defer the full recognition of the impairment losses. The Bank annually recognizes provisions for impairment losses to gradually meet the foregoing provisioning requirement based on the net yield earned by the Bank from the FAA with PDIC until November 29, 2013 when the collateralized GS was sold and the obligation was fully settled. Moving forward, the Bank will continue to amortize the losses at the rate of P160.0 million annually for its separate prudential reporting to the BSP (see Note 34).

16. Allowance for Credit and Impairment Losses

Movements in allowance for credit and impairment losses are summarized as follows (amounts in thousands):

	December 31, 2015				
	AFS Securities (Note 9)	**Loans and Receivables** (Note 10)	**Property and Equipment** (Note 13)	**Other Assets*** (Notes 12 and 15)	**Total**
Balance at beginning of year, as restated	**P340,167**	**P2,745,206**	**P14,733**	**P4,879,571**	**P7,979,677**
Provisions (reversals) taken up to profit or loss	**-**	**(97,969)**	**-**	**42,345**	**(55,624)**
Reclassifications	**-**	**23,186**	**-**	**(23,186)**	**-**
Recoveries	**-**	**(23,103)**	**-**	**(40,025)**	**(63,128)**
Write-off (Note 36)	**-**	**(317,910)**	**-**	**-**	**(317,910)**
Others **	**(45)**	**9,091**	**-**	**-**	**9,046**
Balance at end of year	**P340,122**	**P2,338,501**	**P14,733**	**P4,858,705**	**P7,552,061**

**Includes allowance for impairment loss on investment in associate (see Note 12) and other assets (see Note 15)*
***Includes foreign exchange difference*

	December 31, 2014				
	AFS Securities (Note 9)	Loans and Receivables (Note 10)	Property and Equipment (Note 13)	Other Assets* (Notes 12 and 15)	Total
Balance at beginning of year, as restated	P697,918	P3,759,539	P9,999	P4,916,217	P9,383,673
Provisions (reversals) taken up to profit or loss	(5,220)	(383,950)	4,734	(31,191)	(415,627)
Reclassifications	-	5,455	-	(5,455)	-
Recoveries	(352,272)	(642,869)	-	-	(995,141)
Others **	(259)	7,031	-	-	6,772
Balance at end of year	P340,167	P2,745,206	P14,733	P4,879,571	P7,979,677

**Includes allowance for impairment loss on investment in associate (see Note 12) and other assets (see Note 15)*
***Includes foreign exchange difference*

A reconciliation of the allowance for credit losses for loans and receivables follows:

		December 31, 2015					
	Note	**Term Loans**	**Direct Advances**	**Agri-agra Loans**	**Bills Purchased, Import Bills, and Trust Receipts**	**Others***	**Total**
Balance at beginning of year		**P1,104,216,566**	**P55,134,941**	**P15,877,138**	**P95,309,816**	**P1,474,667,839**	**P2,745,206,300**
Provisions (reversals) taken up to profit or loss		**(60,912,056)**	**43,889**	**(8,960,930)**	**(6,843,991)**	**(21,296,323)**	**(97,969,411)**
Reclassifications		**22,829,387**	**1,473,294**	**20,204**	**2,263,706**	**(3,400,171)**	**23,186,420**
Recoveries		**(22,365,132)**	**(89,932)**	**(1,233)**	**(138,179)**	**(508,216)**	**(23,102,692)**
Write-off (Note 36)		**-**	**-**	**-**	**-**	**(317,910,483)**	**(317,910,483)**
Others**		**5,250,963**	**-**	**-**	**-**	**3,839,862**	**9,090,825**
Balance at end of year		**P1,049,019,728**	**P56,562,192**	**P6,935,179**	**P90,591,352**	**1,135,392,508**	**P2,338,500,959**
Total Impairment Allowance	*10*						
Individual impairment							**P1,893,322,276**
Collective impairment							**445,178,683**
							P2,338,500,959
Gross amount of loans and receivables, individually determined to be impaired							**P3,996,926,996**

**Includes other receivable from customers, accounts receivable, sales contract receivable, accrued interest receivable and unquoted debt securities*
***Others include foreign exchange differential*

	Note	Term Loans	Direct Advances	Agri-agra Loans	Bills Purchased, Import Bills, and Trust Receipts	Others*	Total
		December 31, 2014					
Balance at beginning of year		P1,424,787,912	P55,583,692	P6,182,016	P94,958,446	P2,178,027,230	P3,759,539,296
Provisions (reversals) taken up to profit or loss		(313,077,434)	(460,420)	9,693,010	331,936	(80,437,130)	(383,950,038)
Reclassifications		168,516	11,669	2,112	19,434	5,253,185	5,454,916
Recoveries		(7,767,308)	-	-	-	(635,102,140)	(642,869,448)
Others**		104,880	-	-	-	6,926,694	7,031,574
Balance at end of year		P1,104,216,566	P55,134,941	P15,877,138	P95,309,816	P1,474,667,839	P2,745,206,300
Total Impairment Allowance	*10*						
Individual impairment							P2,228,836,695
Collective impairment							516,369,605
							P2,745,206,300
Gross amount of loans and receivables, individually determined to be impaired							P5,191,648,142

**Includes other receivable from customers, accounts receivable, sales contract receivable, accrued interest receivable and unquoted debt securities*
***Others include foreign exchange differential*

Movement of the individual and collective allowance for credit and impairment losses on loans and receivables:

	December 31, 2015			December 31, 2014		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total
Balance at beginning of year, as restated	**P2,228,836,695**	**P516,369,605**	**P2,745,206,300**	P3,367,325,492	P392,213,804	P3,759,539,296
Provisions (reversals) taken up to profit or loss	**(46,176,177)**	**(51,793,234)**	**(97,969,411)**	(515,873,147)	131,923,109	(383,950,038)
Reclassifications	**21,510,190**	**1,676,230**	**23,186,420**	5,454,916	-	5,454,916
Recoveries	**(2,028,774)**	**(21,073,918)**	**(23,102,692)**	(635,102,140)	(7,767,308)	(642,869,448)
Write-off (Note 36)	**(317,910,483)**	**-**	**(317,910,483)**	-	-	-
Others*	**9,090,825**	**-**	**9,090,825**	7,031,574	-	7,031,574
Balance at end of year	**P1,893,322,276**	**P445,178,683**	**P2,338,500,959**	P2,228,836,695	P516,369,605	P2,745,206,300

**Others include foreign exchange differential*

17. Deposit Liabilities

On March 29, 2012, the BSP issued Circular No. 753, which contains the rules and regulations for the unification of the statutory and liquidity reserve requirements effective on the reserve week starting on April 6, 2012. Circular No. 753 provides, among others, the following:

- Unification of the statutory and liquidity reserve requirements, from 11.0% and 10.0%, respectively, to 18.0%;
- Required reserves shall be kept in the form of deposits placed in banks' Demand Deposit Accounts (DDAs) with the BSP;
- Exclusion of cash in vault and demand deposits as eligible form of reserve requirement compliance;
- GS which are used as compliance with the regular and/or liquidity reserve requirements shall continue to be eligible until they mature;
- Discontinuance of Reserve Deposit Account facility beginning April 6, 2012; and
- Deposits maintained with the BSP in compliance with the reserve requirement no longer bear interest.

On March 27, 2014, the BSP issued Circular No. 832, which amends the reserve requirements from 18.0% to 20.0% effective on the reserve week starting on May 30, 2014. As at December 31, 2015 and 2014, the Bank is in compliance with such reserve requirements.

Due from BSP-DDA amounting to P20.7 billion and P20.6 billion as at December 31, 2015 and 2014, respectively, is available for meeting these reserve requirements as reported to the BSP.

In 2015 and 2014, interest rates earned on Due from BSP-Special Deposit Accounts averaged 2.5% and 2.2%, respectively.

Interest expense on deposit liabilities follows:

	2015	2014
Demand	**P45,674**	P67,477
Savings	**611,896,982**	684,945,662
Time	**234,550,040**	279,836,082
	P846,492,696	P964,849,221

Peso-denominated deposits are subject to annual interest rates ranging from 0.3% to 5.0% and from 0.1% to 6.5% in 2015 and 2014, respectively. Foreign currency-denominated deposits are subject to annual interest rates ranging 0.1% to 1.8% in 2015 and 2014.

18. Bills Payable

This account consists of borrowings from rediscounting facility availed by TRB from Social Security System, which was assumed by the Bank in connection with the PSA entered into by the Bank with TRB in 2002. This was collateralized by certain receivables from customers amounting to P1.8 million.

Interest expense on bills payable amounted to P0.7 million and P0.8 million in 2015 and 2014, respectively.

Peso-denominated bills payable are subject to annual interest rates ranging from 5.0% to 12.0 % in 2015 and 2014. Foreign currency-denominated bills payable are subject to annual interest rates ranging from 0.4% and 1.0% in 2014.

19. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Note	**2015**	2014
Accrued interest payable:			
Deposit liabilities	*17*	**P134,403,865**	P114,271,086
Bills payable	*18*	**6,232**	6,484
		134,410,097	114,277,570
Accrued taxes payable		**247,357,403**	277,680,133
Accrued employee and other benefits		**142,243,710**	110,559,456
Accrued insurance		**110,762,254**	116,476,433
Accrued lease liability		**83,576,177**	75,869,777
Accrued penalties		**65,386,445**	44,236,042
Accrued utilities expense		**14,701,725**	15,933,735
Other expenses		**109,430,454**	81,798,889
		P907,868,265	P836,832,035

Other expenses include accruals for equipment-related expenses, security services, janitorial, messengerial and various expenses attributable to the Bank's operations.

20. Other Liabilities

This account consists of:

	Note	**2015**	2014
Accounts payable		**P821,355,683**	P779,165,989
Due to preferred shareholders	*22*	**260,893,252**	256,058,333
Retirement liability	*27*	**135,385,940**	178,139,155
Withholding tax payable		**62,535,185**	56,760,785
Due to Treasurer of the Philippines		**33,231,770**	10,924,033
Miscellaneous	*10*	**849,627,797**	1,284,817,317
		P2,163,029,627	P2,565,865,612

Accounts payable mainly pertains to advance payments from customers, inward and outward remittances received by the Bank pending payment or application to designated accounts.

Miscellaneous liabilities mainly consists of the reciprocal account of bills purchased classified as loans arising from customer trades and accommodations amounting to P0.7 billion and P1.2 billion granted by the Bank to its depositors as at December 31, 2015 and 2014, respectively (see Note 10).

21. Maturity Profile of Assets and Liabilities

The following tables present the maturity profile of the assets and liabilities of the Bank based on the amounts to be recovered or settled within and/or after more than 12 months after the reporting period (in thousands):

		2015			2014		
	Note	**Within 12 Months**	**Over 12 Months**	**Total**	Within 12 Months	Over 12 Months	Total
Financial Assets - gross							
COCI		**P2,253,631**	**P -**	**P2,253,631**	P2,325,630	P -	P2,325,630
Due from BSP	*17*	**49,802,020**	**-**	**49,802,020**	49,198,854	-	49,198,854
Due from other banks		**3,287,775**	**-**	**3,287,775**	3,548,086	-	3,548,086
Interbank loans receivable	*7*	**5,383,606**	**-**	**5,383,606**	5,699,716	-	5,699,716
Financial assets at FVPL:	*8*						
Government securities held-for-trading		**1,677,625**	**-**	**1,677,625**	329,456	-	329,456
Derivative assets		**-**	**23,530**	**23,530**	-	22,360	22,360
Private Debt Securities		**-**	**317**	**317**	1,069	322	1,391
AFS investments-gross:	*9*						
Quoted government securities		**149,681**	**17,914,027**	**18,063,708**	329,826	22,603,879	22,933,705
Quoted other debt securities		**250,373**	**4,203,170**	**4,453,543**	-	4,009,261	4,009,261
Unquoted debt securities		**-**	**790,896**	**790,896**	-	795,924	795,924
Quoted equity securities		**-**	**146,738**	**146,738**	-	146,738	146,738
Unquoted equity securities		**-**	**334,887**	**334,887**	-	335,780	335,780
Loans and receivables - gross:	*10*						
Receivable from customers:							
Term Loans		**9,421,786**	**24,865,994**	**34,287,780**	10,672,758	24,629,981	35,302,739
Bills purchased, import bills and trust receipts		**953,932**	**-**	**953,932**	1,515,230	-	1,515,230
Direct Advances		**882,127**	**20,525**	**902,652**	798,256	26,591	824,847
Agri-agra loans		**409,244**	**23,000**	**432,244**	345,609	15,459	361,068
Others		**622,329**	**4,860,726**	**5,483,055**	716,126	3,509,893	4,226,019
Sales contracts receivable		**229,046**	**637,139**	**866,185**	68,480	1,087,068	1,155,548
Unquoted debt securities		**-**	**291,578**	**291,578**	-	613,122	613,122
Accrued interest receivable		**713,024**	**-**	**713,024**	839,137	-	839,137
Accounts receivable		**876,749**	**-**	**876,749**	797,055	-	797,055
RCOCI		**1,220**	**-**	**1,220**	5,897	-	5,897
		76,914,168	**54,112,527**	**131,026,695**	77,191,185	57,796,378	134,987,563
Nonfinancial Assets - gross							
Non-current assets held for sale	*11*	**69,247**	**-**	**69,247**	221,892	-	221,892
Investment in associate	*12*	**-**	**75,395**	**75,395**	-	75,395	75,395
Property and equipment	*13*	**-**	**3,973,110**	**3,973,110**	-	3,927,476	3,927,476
Investment properties	*14*	**-**	**5,401,420**	**5,401,420**	-	4,572,699	4,572,699
Deferred tax assets - net	*30*	**-**	**212,946**	**212,946**	-	337,971	337,971
Other assets	*15*	**654,948**	**5,952,499**	**6,607,447**	504,279	6,104,250	6,608,529
		724,195	**15,615,370**	**16,339,565**	726,171	15,017,791	15,743,962
		P77,638,363	**P69,727,897**	**147,366,260**	P77,917,356	P72,814,169	150,731,525
Less:							
Allowance for credit and impairment losses	*16*			**7,552,061**			7,979,677
Accumulated equity in net loss				**20,298**			16,987
Accumulated depreciation and amortization	*13, 15*			**2,291,956**			1,967,795
Unearned interest	*10*			**28,159**			56,268
Total				**P137,473,786**			P140,710,798

	Note	2015 Within 12 Months	2015 Over 12 Months	2015 Total	2014 Within 12 Months	2014 Over 12 Months	2014 Total
Financial Liabilities							
Deposit liabilities	*17*						
Demand		**P24,045,718**	**P -**	**P24,045,718**	P19,873,041	P -	P19,873,041
Savings		**79,478,817**	**-**	**79,478,817**	83,851,463	-	83,851,463
Time		**12,093,496**	**1,554,111**	**13,647,607**	15,145,356	716,503	15,861,859
Bills payable	*18*	**-**	**689**	**689**	-	828	828
Manager's checks and acceptances payable		**500,112**	**-**	**500,112**	544,153	-	544,153
Accrued interest and other expenses	*19*	**434,691**	**-**	**434,691**	372,723	-	372,723
Other liabilities	*20*	**1,839,602**	**260,893**	**2,100,495**	2,253,046	256,058	2,509,104
		118,392,436	**1,815,693**	**120,208,129**	122,039,782	973,389	123,013,171
Nonfinancial Liabilities							
Accrued taxes and other expense payable	*19*	**473,177**	**-**	**473,177**	464,109	-	464,109
Other liabilities	*20*	**62,535**	**-**	**62,535**	56,761	-	56,761
		535,712	**-**	**535,712**	520,870	-	520,870
		P118,928,148	**P1,815,693**	**P120,743,841**	P122,560,652	P973,389	P123,534,041

22. Capital

As at December 31, 2015 and 2014, the Bank has 112,241,112 common shares issued and subscribed with a par value of P100 and has no outstanding preferred shares. However, the Bank has outstanding liability for the unpaid portion of the redemption price of preferred shares amounting to P260.9 million and P256.1 million as at December 31, 2015 and 2014, respectively, which is recorded as "Due to preferred shareholders" account under "Other liabilities" in Note 20 to the financial statements. As at December 31, 2015 and 2014, the related sinking fund which is recorded as "Miscellaneous assets" account amounting to P260.9 million and P256.1 million, respectively, has been set up to fund the eventual settlement of this liability (see Note 15).

On April 8, 2010, the SEC approved the Bank's application for increase in authorized capital stock from P6.0 billion divided into 52.5 million common shares; 7.5 million preferred shares both with the par value of P100 each, to P22.0 billion divided into P212.5 million common shares; 7.5 million preferred shares both with the par value of P100 each. The related amendment to the Articles of Incorporation of the Bank relative to its proposed increase in authorized capital stock from P6.0 billion to P22.0 billion, was approved by the BSP and the SEC on March 26, 2010 and April 8, 2010, respectively.

During its meeting on January 18, 2011, the BOD of the Bank passed a resolution approving the following:

- the sale of fully paid shares of Valiant Ventures & Development Holdings, Inc. (Valiant) in the Bank to San Miguel Properties, Inc. (SMPI) and San Miguel Corporation Retirement Plan (SMCRP) amounting to 2,800,000 shares and 1,972,735 shares, respectively; and

- the assignment of subscription rights of Valiant to SMPI amounting to 523,726 shares (Tranche 1) and 4,713,539 shares (Tranche 2).

In this connection, the Bank secured the approval of the MB of the BSP for such sale of shares and assignment of subscription of the shares of Valiant. This is mandated in the BSP's MORB since the total shareholdings of Valiant entitles it to a board seat. The Board has also agreed that the sale of shares and assignment of subscription rights be recorded in the stock and transfer book of the Bank only after the approval of the MB has been obtained.

On March 30, 2011, the MB of the BSP approved the sale of shares of Valiant.

In 2011, the Bank's subscribed common stock totaling 59,741,113 shares have been fully paid in accordance with the subscription agreement.

Capital Management

The Bank's capital base, comprised of capital stock, paid-in surplus, surplus reserves and revaluation increment on property, is actively being managed to cover risks inherent in the Bank's operations. In 2009, SMPI and SMCRP infused additional capital amounting to P3.3 billion in the form of paid-up common stock. On February 18, 2010 and March 1, 2010, major stockholders infused P271.9 million and P2.1 billion, respectively, into the Bank in the form of advances for future stock subscriptions, which shall be treated as part of the Bank's paid-up capital upon the SEC's approval thereon and on the increase in the Bank's authorized capital stock.

On October 29, 2014, BSP issued Circular 854 amending Subsection X111.1 of the MORB regarding the minimum capitalization requirement applicable for the Bank (commercial banks with more than 100 branches) from P2.4 billion to P15.0 billion effective November 13, 2014. Banks which comply with the new capital levels shall submit to the BSP a certification to this effect within 30 calendar days from the date of the effectivity of the circular while banks which are not meeting the required minimum capital must submit to the BSP an acceptable capital build-up program within 1 year from the date of effectivity of the circular.

As at December 31, 2015 and 2014, the reported unimpaired capital of P15.5 billion and P15.3 billion, respectively, exceeded the required minimum regulatory capital of P15.0 billion for commercial banks with more than 100 branches.

The Bank's overall strategy on capital management remains unchanged since prior financial year.

Regulatory Qualifying Capital

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" (regulatory net worth) as reported to the BSP, which is determined on the basis of Regulatory Accounting Principles which differ from PFRSs in some respects.

The BSP sets and monitors compliance to minimum capital requirements for the Bank. In implementing current capital requirements, BSP issued Circular 538 which implemented the Revised Risk-Based Capital Adequacy Framework under Basel II effectively July 1, 2007. It requires the Bank to maintain a prescribed risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk-weighted assets) of not less than 10.0%.

Under BSP Circular 538, the regulatory qualifying capital of the Bank consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprised common stock, additional paid-in capital and surplus. Tier 2 composed upper tier 2 and lower tier 2. Upper tier 2 consists of preferred stock, revaluation increment reserve, general loan loss provision and deposit for common stock subscription. Lower tier 2 consists of the unsecured subordinated debt.

On January 15, 2013, the BSP issued Circular 781 which contains the revised risk-based capital adequacy framework for the Philippine Banking system in accordance with the Basel III standards. The said Circular took effect on January 1, 2014. The following are the revised minimum capital requirements for UBs and KBs and their subsidiary banks and quasi-banks (QBs):

- 6.0% Common Equity Tier 1 (CET1)/Risk-Weighted Assets (RWAs)
- 7.5% Tier 1 Capital/RWAs, and
- 10.0% Total Qualifying Capital (Tier1 plus Tier2)/RWAs

The Qualifying Capital must consist of the sum of the following elements, net of required deductions: Tier 1-'going concern' [CET1 plus Additional Tier 1(ATI)] and Tier 2 -'gone concern.' A bank/quasi-bank must ensure that any component of capital included in qualifying capital complies with all the eligibility criteria for the particular category of capital in which it is included. The Circular further describes the elements/criteria that a domestic bank should meet for each capital category. Regulatory adjustments and calculation guidelines for each capital category are also discussed.

In conformity with the Basel III standards, a Capital Conservation Buffer (CCB) of 2.5% of RWAs, comprised of CET1 capital, has been required of U/KBs and their subsidiary banks and quasi-banks. This buffer is meant to promote the conservation of capital and build-up of adequate cushion that can be drawn down by banks to absorb losses during financial and economic stress. The restrictions on distribution that a bank must meet at various levels of CET1 capital ratios are established, as shown in below table. Restrictions will be imposed if a bank has no positive earnings, has CET1 of not more than 8.5% (CET Ratio of 6.0% plus conservation buffer of 2.5%) and has not complied with the minimum 10% CAR.

Level of CET 1 capital	**Restriction on Distributions**
<6.0	No distribution
6.0%-7.25%	No distribution until more than 7.25% CET1 capital is met
>7.25%-8.5%	50% of earnings may be distributed
>8.5%	No restriction on the distribution

On June 9, 2015, MB issued BSP Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio* Framework, which approved the guidelines for the implementation of the Basel III Leverage Ratio in the Philippines and designed to act as supplementary measure to the risk-based capital requirements. It is defined as the capital measure (numerator) divided by the exposure measure (denominator). The leverage ratio shall not be less than 5.0% computed on both solo (head office plus branches) and consolidated bases (parent bank plus subsidiary financial allied undertakings but excluding insurance companies).

This applies to U/KBs as well as their subsidiary banks and quasi-banks with the framework anchored on the international standards issued by the Basel Committee on Banking Supervision known as the Basel 3 reforms.

As at December 31, 2015 and 2014, based on the CAR reports submitted to BSP, the Bank's CAR of 21.9% and 22.1%, respectively, exceeded the minimum 10.0% requirement as computed and monitored using the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios"), based on the Basel III framework.

The breakdown of the Bank's risk-weighted assets as at December 31, 2015 and 2014 as reported to the BSP follows (amounts in thousands):

	2015	2014
Credit risk-weighted assets	**P58,920,646**	P59,155,029
Market-risk weighted assets	**1,186,315**	737,583
Operational risk-weighted assets	**6,592,280**	6,194,548
	P66,699,241	P66,087,160

The Bank is also required to maintain a minimum Tier 1 capital ratio of 7.5% in 2015 and 2014 (in millions) which was complied as per below:

	2015	2014
Tier 1 capital	**P14,247**	P13,986
Tier 2 capital	**328**	624
Total qualifying capital	**P14,575**	P14,610
Risk-weighted assets	**P66,699**	P66,087
Tier 1 capital ratio	**21.4%**	21.2%
Total capital ratio	**21.9%**	22.1%

Certain adjustments are made to PFRSs results and reserves to calculate CAR which included the Bank's accounting of the following transactions that require different accounting treatments under PFRSs:

a) calculation of reserves for allowance for credit losses on loans and receivables;
b) nonperforming assets and operating losses of TRB capitalized as miscellaneous assets and subject to staggered allowance provisioning through offset of net yield earned from the financial assistance;
c) deferral of losses on sold NPLs to SPV Company; and
d) accounting for investment properties.

For items a, b and d, the recognition of the Bank is based on the accounting treatment approved by BSP (see Notes 10, 15, 16 and 34). For item c, the accounting treatment is based on the provisions of the SPV law.

<u>Financial Performance</u>
The following basic ratios measure the financial performance of the Bank:

	2015	2014
Return on average equity	**1.9%**	8.4%
Return on average assets	**0.3%**	1.0%
Net interest margin on average earning assets	**2.8%**	3.3%

23. Surplus Reserves

	2015	2014
Reserve for trust business	**P86,692,129**	P82,211,945
Reserve for self-insurance	**60,000,000**	60,000,000
	P146,692,129	P142,211,945

In compliance with existing BSP regulations, 10.0% of the Bank's profit from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust business equals 20.0% of the Bank's authorized capital stock.

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

24. Interest Income on Debt Securities

This account consists of:

	Note	**2015**	2014
Financial assets at FVPL:			
Government securities held for trading		**P92,366,983**	P55,530,328
Quoted other debt securities		**45,737**	96,183
AFS securities:			
Quoted government securities		**630,908,009**	547,804,466
Quoted other debt securities		**225,054,652**	94,574,909
Unquoted debt securities	*9, 36*	**104,977,647**	257,573,051
HTM investments:			
Quoted government securities	*9*	**-**	492,525,197
Quoted other debt securities	*9*	**-**	47,675,171
		P1,053,353,028	P1,495,779,305

Foreign currency-denominated financial assets at FVPL bear EIRs ranging from 2.0% to 9.9% in 2015 and from 2.8% to 9.9% in 2014. Peso-denominated financial assets at FVPL bear EIRs ranging from 3.6% to 8.1% in 2015 and from 1.6% to 8.1% in 2014.

Foreign currency-denominated AFS securities bear EIRs ranging from 1.9% to 12.5% in 2015 and from 2.3% to 12.5% in 2014. Peso-denominated AFS securities bear EIRs ranging from 2.2% to 12.4% in 2015 and from 2.2% to 14.5% in 2014.

Foreign currency-denominated and peso-denominated HTM investments bear EIRs ranging from 2.4% to 4.6% and 3.3% to 5.5%, respectively, in 2014 (see Note 9).

25. Service Charges, Fees and Commissions

This account consists of:

	2015	2014
Service charges	**P147,698,434**	P148,855,667
Trust income	**58,876,143**	44,709,238
Commitment and other loan-related charges	**57,033,168**	-
Penalty charges	**34,217,894**	34,029,361
Letters of credit fees	**9,815,845**	7,573,578
Acceptance fees	**560,003**	923,641
Others	**54,100,686**	26,882,467
	P362,302,173	P262,973,952

Service charges include charges on loans and deposit taking-related activities. Others include telegraphic transfer fees and cash advance fee on credit card.

26. Trading and Investment Securities Gains (Losses)

This account consists of realized and unrealized gains (losses) from the following securities:

	Note	2015	2014
Financial assets and liabilities at FVPL:	*8*		
Debt securities			
Realized		**(P69,255,917)**	P130,348,961
Unrealized		**(72,505,565)**	(2,228,887)
Derivatives			
Unrealized	*8, 36*	**-**	7,448,260
AFS securities	*9, 36*	**508,129,617**	190,500,338
HTM investments	*9*	**-**	(3,739,635)
		P366,368,135	P322,329,037

27. Employee Benefits

<u>Retirement Plan</u>

The Bank has a funded noncontributory defined benefit retirement plan covering its regular and permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using projected unit credit method.

The Bank's retirement benefits are based on the employee's years of service and a percentage of his gross monthly salary. An employee shall be retired and shall be entitled to full retirement benefits upon his attainment of 60 years of age.

An employee, upon reaching the age of 50 years and with the completion of no less than 10 years of service as a regular employee and with 30 days prior notice to the Bank, may retire at his option and shall be entitled to the retirement benefits.

An employee who has at least 10 years of service as a regular employee, but who has not reached the age of 50 years, may retire at his option and shall be entitled to the retirement benefits but such retirement benefit shall be subject to the pertinent requirements of the BIR.

The Bank's retirement plan is registered with the BIR as a tax-qualified plan under RA No. 4917, as amended, and complies with the minimum retirement benefit specified under RA No. 7641, the "New Retirement Law."

The retirement fund is being managed and administered by the Bank's Trust Services Division which is covered by an Investment Management Account (IMA) Agreement (agency relationship).

The date of the last actuarial valuation is December 7, 2015. Valuations are performed on an annual basis.

As at December 31, 2015 and 2014, the principal actuarial assumptions used in determining retirement benefits liability for the Bank's retirement plan are shown below:

	2015	2014
Average working life	**13.0**	13.0
Discount rate	**5.0%**	4.8%
Future salary increases	**6.6%**	6.6%

The following table shows reconciliation from the opening balances to the closing balances for net retirement benefit liability and its components (in thousands).

	Defined Benefits Obligation		Fair Value of Plan Assets		Net Retirement Benefit Liability	
	2015	2014	**2015**	2014	**2015**	2014
Balance at January 1	**P747,827**	P627,266	**(P569,688)**	(P493,262)	**P178,139**	P134,004
Included in profit or loss						
Current service cost	**94,548**	86,728	**-**	-	**94,548**	86,728
Interest expense (income)	**35,896**	33,872	**(27,345)**	(26,636)	**8,551**	7,236
Settlement cost due to wage rationalization program	**11,902**	-	**-**	-	**11,902**	-
	142,346	120,600	**(27,345)**	(26,636)	**115,001**	93,964
Included in OCI						
Remeasurement loss (gain):						
Actuarial loss (gain) arising from:						
Financial assumptions	**(18,457)**	52,951	**-**	-	**(18,457)**	52,951
Experience adjustment	**(16,740)**	1,153	**-**	-	**(16,740)**	1,153
Return on plan assets excluding interest income	**-**	-	**11,951**	18,856	**11,951**	18,856
	(35,197)	54,104	**11,951**	18,856	**(23,246)**	72,960
Others						
Contributions paid by the employer	**-**	-	**(134,508)**	(122,789)	**(134,508)**	(122,789)
Benefits paid	**(64,007)**	(54,143)	**64,007**	54,143	**-**	-
	(64,007)	(54,143)	**(70,501)**	(68,646)	**(134,508)**	(122,789)
Balance at December 31	**P790,969**	P747,827	**(P655,583)**	(P569,688)	**P135,386**	P178,139

The actual return on plan assets amounted to P15.4 million and P7.8 million in 2015 and 2014, respectively.

The Bank expects to contribute P109.1 million to its defined benefits retirement plan in 2016.

The major categories of plan assets, at carrying values follow (see Note 33):

	2015	2014
AFS Securities:		
Government and other debt securities	**P254,954,901**	P270,205,946
Quoted equity securities	**134,886,626**	85,559,332
Unquoted equity securities	**9,696,722**	9,359,152
Deposits with the Bank	**99,135,968**	186,971,640
Receivables	**149,536,809**	2,906,729
Total Plan Assets	**P648,211,026**	P555,002,799

Sensitivity Analysis
Reasonably possible changes to one of the relevant actuarial assumptions, with all other assumptions constant, would have affected the net retirement liability of the Bank by the amounts shown below:

	December 31, 2015			
	Discount Rate		**Salary Increase Rate**	
	+0.50%	**-0.50%**	**+0.50%**	**-0.50%**
Present value of the defined benefit obligation	**P747,592,541**	**P838,386,829**	**P834,309,040**	**P750,836,820**
Fair value of plan assets	**655,583,170**	**655,583,170**	**655,583,170**	**655,583,170**
Net retirement liability	**P92,009,371**	**P182,803,659**	**P178,725,870**	**P95,253,650**

	December 31, 2014			
	Discount Rate		Salary Increase Rate	
	+0.50%	-0.50%	+0.50%	-0.50%
Present value of the defined benefit obligation	P703,314,109	P796,531,458	P792,324,584	P706,651,156
Fair value of plan assets	569,687,721	569,687,721	569,687,721	569,687,721
Net retirement liability	P133,626,388	P226,843,737	P222,636,863	P136,963,435

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

The defined benefit plans expose the Bank to actuarial risks, such as longevity risk, interest risk, and market (investment risk).

The overall investment policy and strategy of the retirement plan is based on the Bank's suitability assessment, as provided by its Trust Services Group, in compliance with the BSP requirements.

The weighted average duration of the defined benefit obligations is equal to the expected average remaining working lives as at December 31, 2015 and 2014.

Compensation and Fringe Benefits
The details of the following accounts for the year ended December 31 follow:

	2015	2014
Salaries and allowances	**P749,875,301**	P737,375,700
Employee benefits	**416,396,182**	358,915,365
Bonuses	**248,644,464**	240,921,709
Overtime	**24,270,854**	30,488,354
	P1,439,186,801	P1,367,701,128

28. Lease Contracts

Bank as Lessee

The Bank leases the premises occupied by most of its branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable upon mutual agreement between the Bank and the lessors. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 3.0% to 15.0%. Rent expense charged against current operations (included under "Rent and utilities" account in the statements of income) amounted to P313.9 million and P313.6 million in 2015 and 2014, respectively.

There are no contingent rentals and restrictions imposed by lease arrangements as at December 31, 2015 and 2014.

Future minimum rentals payable under non-cancellable operating leases follows (amounts in millions):

	2015	2014
Within one year	**P200.6**	P199.7
After one year but not more than five years	**465.5**	513.2
After five years	**135.6**	172.4

Bank as Lessor

The Bank entered into commercial property leases for office space. These non-cancellable leases have remaining lease terms ranging from 0.5 to 3 years. As at December 31, 2015 and 2014, there is no contingent rental income. Rent income of the Bank related to these property leases amounting to P8.6 million and P10.5 million in 2015 and 2014, respectively, are shown under "Miscellaneous" of "Other income" account in the statements of income.

Future minimum rentals receivable under non-cancellable operating leases follows (amounts in millions):

	2015	2014
Within one year	**P5.7**	P5.8
After one year but not more than five years	**10.9**	22.4

29. Miscellaneous Expenses

	Note	**2015**	2014
Entertainment, amusement and recreation	*30*	**P173,390,393**	P171,752,380
Litigation and acquired assets - related expenses	*14*	**65,040,339**	39,017,784
Bank charges		**57,880,253**	78,654,313
Messengerial services		**53,809,572**	48,506,663
Marketing		**46,359,197**	43,184,816
Communications		**42,040,598**	48,496,913
Supervision and examination fee		**34,459,278**	36,654,954
Forms and supplies		**26,484,408**	26,262,948
Transportation and travel		**13,424,667**	16,596,013
Others		**85,607,213**	81,281,995
		P598,495,918	P590,408,779

Others include management fee on deposits, subscription fee and membership dues.

30. Income and Other Taxes

Income and other taxes are comprised of RBU and FCDU income taxes which are discussed as follows:

Regular Banking Unit
Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented under "Taxes and licenses" account in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes.

Income taxes include corporate income tax, as discussed below, and final taxes paid at the rate of 20.0%, which is a final withholding tax on gross interest income from GS and other deposit substitutes.

The corporate income tax rate is 30.0%. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.0% of interest income subjected to final tax. It also provides for the change in GRT rate from 5.0% to 7.0%.

The regulations also provide for MCIT of 2.0% on modified gross income and allow NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a 3-year period from the year of incurrence.

In addition, Revenue Regulation (RR) No. 10-2002 provides for the ceiling on the amount of entertainment, amusement and representation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, 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 1.0% of net revenue. Nondeductible EAR expenses amounted to P114.5 million in 2015 and P122.0 million in 2014. EAR expense is included under "Miscellaneous expenses" account in the statements of income (see Note 29).

In 2011, the BIR issued RR 4-2011 which requires banks to allocate and claim as deduction only those costs and expenses attributable to RBU to arrive at the taxable income of the RBU subject to regular income tax. Any cost or expense related with or incurred for the operations FCDU are not allowed as deduction from the RBU's taxable income. In computing for the amount allowable as deduction from RBU operations, all costs and expenses should be allocated between the RBU and FCDU by specific identification and by allocation.

Foreign Currency Deposit Unit
RA No. 9294, the existing applicable tax regulation governing the taxation of FCDU provides, among others, the following:

- Offshore income or the income derived by FCDUs from foreign currency transactions with nonresidents, Offshore Banking Units (OBUs) in the Philippines, local commercial banks including branches of foreign banks that may be authorized by the BSP to transact business with FCDUs and other depository banks under the foreign currency deposit system shall be exempt from all taxes, except net income from such transactions as may be specified by the Secretary of Finance, upon recommendation by the MB to be subject to the regular income tax payable by banks.

- Gross onshore income or interest income from foreign currency loans granted by FCDUs to residents through offshore units in the Philippines or other depository banks under the expanded system shall be subject to a final tax at a rate of 10.0%; and

- Interest income derived by resident individual or corporation on deposits with FCDUs and OBUs are subject to 7.5% final tax.

Income tax expense consists of:

	2015	2014
Current:		
Final	**P263,118,374**	P328,804,082
MCIT	**40,305,455**	41,893,085
RCIT	**1,849,246**	12,473,610
	305,273,075	383,170,777
Deferred	**161,111,293**	(305,973,148)
	P466,384,368	P77,197,629

The amount of deferred tax income relates to the origination and reversal of temporary differences.

The reconciliation of the income tax expense computed at the statutory tax rate to the effective income tax shown in the statements of income follows:

	2015	2014
Income before income tax	**P796,177,671**	P1,407,373,736
Income tax at statutory rate	**P238,853,301**	P422,212,121
Additions to (reductions in) income taxes resulting from the tax effects of:		
Nondeductible expenses	**346,966,811**	360,225,308
Tax paid income	**(130,236,161)**	(163,741,826)
Nontaxable income	**(67,383,906)**	(60,693,757)
FCDU income	**(62,590,495)**	(61,793,759)
Changes in unrecognized deferred tax assets	**17,896,705**	(738,880,671)
Others	**122,878,113**	319,870,213
Effective income tax	**P466,384,368**	P77,197,629

The components of net deferred tax assets and deferred tax liabilities in the statements of financial position follow:

	2015		2014	
	Tax Base	**Deferred Tax Asset (Liability)**	Tax Base	Deferred Tax Asset (Liability)
Deferred tax asset recognized in profit or loss:				
Allowance for credit and impairment losses	**P2,443,980,851**	**P733,194,255**	P2,525,154,318	P757,546,295
NOLCO	**359,761,397**	**107,928,419**	359,761,397	107,928,419
Unrealized loss on foreclosed properties	**170,232,405**	**51,069,722**	194,921,259	58,476,378
Retirement liability	**142,346,309**	**42,703,893**	136,015,453	40,804,636
MCIT	**82,198,540**	**82,198,540**	82,148,910	82,148,910
Accrued rent expense	**71,187,146**	**21,356,144**	66,747,378	20,024,213
Other accrued expenses	**236,446,949**	**70,934,085**	178,501,129	53,550,339
	3,506,153,597	**1,109,385,058**	3,543,249,844	1,120,479,190

Forward

	2015		2014	
	Tax Base	Deferred Tax Asset (Liability)	Tax Base	Deferred Tax Asset (Liability)
Deferred tax liability recognized in profit or loss and OCI:				
Unrealized gain on foreclosed properties	**(P2,204,718,356)**	**(P661,415,508)**	(P1,692,369,567)	(P507,710,870)
Revaluation increment on property and equipment	**(577,766,811)**	**(173,330,043)**	(698,053,801)	(209,416,140)
Gain on investment properties sold under installments	**(137,714,887)**	**(41,314,466)**	(211,107,696)	(63,332,309)
Unrealized foreign exchange gain	**(67,929,487)**	**(20,378,846)**	(6,828,265)	(2,048,480)
	(2,988,129,541)	**(896,438,863)**	(2,608,359,329)	(782,507,799)
Net deferred tax assets	**518,024,056**	**212,946,195**	934,890,515	337,971,391
Less amount recognized in OCI:				
Revaluation increment on property and equipment	**(577,766,811)**	**(173,330,043)**	(698,053,801)	(209,416,140)
Amount recognized in profit or loss	**P1,095,790,867**	**P386,276,238**	P1,632,944,316	P547,387,531

Management believes that certain future deductible items may not be realized in the near foreseeable future as future taxable income may not be sufficient for the related tax benefits to be realized. Accordingly, the Bank did not set up deferred tax assets on the following temporary differences and carry forward benefits of NOLCO and MCIT:

	2015		2014	
	Deductible Temporary Differences	Deferred Tax Asset	Deductible Temporary Differences	Deferred Tax Asset
Allowance for credit and impairment losses	**P2,911,709,860**	**P873,512,958**	P2,888,926,943	P866,678,083
NOLCO	**198,213,009**	**59,463,903**	421,444,349	126,433,305
MCIT	**40,255,825**	**40,255,825**	22,678,769	22,678,769
Unrealized loss on financial assets at FVPL	**75,233,485**	**22,570,045**	6,051,888	1,815,566
Remeasurement losses on defined benefit liability	**231,690,806**	**69,507,242**	254,936,675	76,481,003
Others	**253,205,028**	**75,961,508**	120,872,704	36,261,811
	P3,710,308,013	**P1,141,271,481**	P3,714,911,328	P1,130,348,537

Details of the Bank's RBU NOLCO and MCIT as at December 31, 2015 follow:

NOLCO

Inception Year	Amount	Expired	Balance	Expiry Year
2012	P421,444,349	(P421,444,349)	P -	2015
2014	359,761,397	-	359,761,397	2017
2015	198,213,009	-	198,213,009	2018
	P979,418,755	(P421,444,349)	P557,974,406	

MCIT

Inception Year	Amount	Expired	Balance	Expiry Year
2012	P22,678,769	(P22,678,769)	P -	2015
2013	40,255,825	-	40,255,825	2016
2014	41,893,085	-	41,893,085	2017
2015	40,305,455	-	40,305,455	2018
	P145,133,134	(P22,678,769)	P122,454,365	

31. Commitments and Contingencies

In the normal course of operations, the Bank makes various commitments, such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. The Bank does not anticipate any material losses as a result of these transactions.

The following is a summary of the Bank's commitments and contingencies at their peso equivalent contractual amounts arising from off-books accounts as at December 31, 2015 and 2014:

		2015	2014
Contingent assets:			
Future/spot exchange bought		**P145,817,222**	P357,760,000
Fixed income securities purchased		**48,778,980**	92,757,675
Outward bills for collection		**2,390,829**	435,138
		P196,987,031	P450,952,813
Commitments and contingent liabilities:			
Trust department accounts	*32*	**P24,200,318,651**	P20,617,044,977
Committed credit line		**6,954,946,237**	6,000,000,000
Outstanding guarantees		**2,525,855,196**	92,265,189
Future/spot exchange sold		**804,076,572**	1,207,440,000
Late deposits/payments received		**299,051,883**	93,520,249
Unused commercial letters of credit		**204,346,104**	258,931,866
Fixed income securities sold		**48,778,981**	92,757,675
Items held for safekeeping/securities held as collateral		**68,657**	45,502
		P35,037,442,281	P28,362,005,458

The Bank has several loan-related suits and claims that remain unsettled. It is not practicable to estimate the potential financial impact of these contingencies. However, in the opinion of management, in consultation with its legal counsels, the suits and claims, if decided adversely, will not involve sums having a material effect on the Bank's financial statements.

Other Commitments

The table below summarizes the assets pledged by the Bank to secure outstanding liabilities (in thousands):

	Carrying Amount		**Fair Value**		**Related Liability**	
	2015	2014	**2015**	2014	**2015**	2014
AFS securities	**P -**	P1,632,022	**P -**	P1,632,022	**P -**	P -

The assets pledged by the Bank are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or re-pledge the assets, they are classified in the statements of financial position as pledged collateral. The pledged assets will be returned to the Bank when the underlying transaction is terminated but, in the event of the Bank's default, the counterparty is entitled to apply the collateral in order to settle the liability.

32. Trust Assets

Securities and other properties (other than deposits) held by the Bank in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Bank (see Note 31). Total assets held by the Bank's Trust Services Division amounted to P24.2 billion and P20.6 billion as at December 31, 2015 (unaudited) and 2014, respectively.

In compliance with the requirements of current banking regulations relative to the Bank's trust functions, GS with a face value of P249.0 million and P206.1million, which have been included under "AFS securities" (see Note 9), are deposited with BSP in 2015 and 2014, respectively.

33. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities.

In the ordinary course of business, the Bank has various transactions with its related parties and with certain directors, officers, stockholders and related interests (DOSRI). These transactions usually arise from normal banking activities such as lending, borrowing, deposit arrangements and trading of securities, among others. Under existing policies of the Bank, transactions with related parties are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under current banking regulations, the amount of individual loans to DOSRI, of which 70.0% must be secured, should not exceed the amount of their respective unencumbered deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the lower of the Bank's total regulatory capital or 15.0% of the total loan portfolio. On March 15, 2004, the BSP issued Circular No. 423 which provides for the amended definition of DOSRI accounts.

The following table shows information relating to DOSRI loans:

	2015	2014
Total outstanding DOSRI loans	**P4,681,512**	P5,484,563
Percent of DOSRI loans to total loans	**0.01%**	0.01%
Percent of unsecured DOSRI loans to total DOSRI loans	**Nil**	Nil
Percent of past due DOSRI loans to total DOSRI loans	**Nil**	Nil
Percent of nonperforming DOSRI loans to total DOSRI loans	**Nil**	Nil

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of the bank's affiliates shall not exceed 10.0% of bank's net worth, the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.0% of the net worth of the lending bank. BSP Circular 560 took effect on February 15, 2007.

The details of significant related party transactions of the Bank follow (amounts in thousands):

Category	December 31, 2015 Amount/ Volume	December 31, 2015 Outstanding Balance	December 31, 2014 Amount/ Volume	December 31, 2014 Outstanding Balance	Nature, Terms and Conditions
Affiliates and other related parties					
Unquoted AFS Securities		**P16,328**		P17,174	8.57% equity interest in BANGE
Quoted AFS Securities		**2,975,618**		2,297,610	Long-term bonds with interest rates ranging from 5.0% to 6.6% with maturity years ranging from 2017 to 2025
Investment in associate		**49,171**		54,614	24.25% equity interests in BIC
Receivable from customers		**22,199,206**		24,503,846	Term loans with interest rates ranging from 2.5% to 9.7% and with maturity of less than 1 year to 12 years; Collateral includes chattel mortgage, assignment of contract and concession agreement and pledge agreement on shares
Availments	**P40,910,020**		P60,147,143		
Settlements	**39,650,615**		52,573,872		
Accrued interest and other receivables	**1,438,059**	**248,371**	1,471,631	310,704	Interest income and accrued interest receivables; Other receivables include unsecured, non-interest bearing accounts receivables and DOSRI loans with annual interest of 6.3% and term of more than one year
Deposit liabilities		**26,610,962**		33,669,831	Deposits earn interest at the respective bank deposit rates
Deposits	**3,863,844,101**		3,743,017,555		
Withdrawals	**2,843,660,498**		2,900,716,282		
Accrued interest, other expenses payable and other liabilities	**185,405**	**16,270**	291,095	18,101	Interest expense and accrued interest payable; Other expenses payable and other liabilities include accruals for rent and utilities; On demand, unsecured and non-interest bearing.
Gain on sale of foreclosed assets	**36,000**		26,939		Gain from sale of foreclosed assets
Service fees, commissions and other miscellaneous income	**76,485**		11,899		Loan and investment-related fees and commissions; Other miscellaneous income pertains to dividend received from BANGE
Management and professionals fees			17,026		Professional fees for assistance in tax assessment
Share in net income (loss) of associate	**(2,087)**		883		Share in net income (loss) of BIC
Commitments and contingent liabilities (Note 31)		**8,944,943**		6,000,000	Undrawn committed credit line, bank guarantees in favor of related party and outstanding sight import letters of credit

As at December 31, 2015 and 2014, outstanding bills purchased of related parties with contra account in "Miscellaneous liabilities" amounted to P0.7 billion and P1.1 billion, respectively (see Notes 10 and 20).

An affiliate is a company where more than 10% but not more than 50% of its voting stock is owned or controlled directly or indirectly, through 1 or more intermediaries, by the Bank.

The related party transactions shall be settled in cash. The outstanding balances of related party transactions are not impaired as at December 31, 2015 and 2014.

Transactions with Retirement Plans

The Bank's retirement plan is managed and administered by the Bank's Trust Services Division which is covered by an IMA Agreement (agency relationship). The fair values and carrying values of the plan amounted to P655.6 million and P648.2 million, respectively, in 2015 and P569.7 million and P555.0 million, respectively, in 2014 (see Note 27).

Related information on assets/liabilities and income/expense of the funds as at and for the years ended December 31, 2015 and 2014 follow:

	2015	2014
AFS securities:		
Government and other debt securities	**P254,954,901**	P270,205,946
Quoted equity securities	**134,886,626**	85,559,332
Unquoted equity securities	**9,696,722**	9,359,152
Deposits with the Bank	**99,135,968**	186,971,640
Receivables	**149,536,809**	2,906,729
Total Plan Assets	**P648,211,026**	P555,002,799
Trust fee payable	**P1,172,349**	P352,998
Other liabilities	**-**	100
Total Plan Liabilities	**P1,172,349**	P353,098

Plan Income	**2015**	2014
Interest income	**P16,384,738**	P15,621,402
Dividend income and others	**4,844,223**	1,171,912
	P21,228,961	P16,793,314
Plan Expense		
Provision (reversal) for probable losses on equity securities	**P1,468,357**	(P11,920,321)
Trust fees	**1,532,968**	1,305,818
Other expenses	**1,731**	16,633
	P3,003,056	(P10,597,870)

As at December 31, 2015 and 2014, the retirement plan of the Bank includes 73,067 shares of the Bank classified under AFS equity securities. The allowance for probable losses on the retirement plan's shares of the Bank amounted to P12.3 million and P12.6 million as at December 31, 2015 and 2014, respectively. Limitations and restrictions are covered by the IMA Agreement and anything outside the IMA Agreement must be explicitly authorized by the Board of Trustees (BOT).

As at December 31, 2015 and 2014, receivables include accrued interest on deposit with the Bank amounting to P361,231 and P119,056, respectively. Interest income on deposit with the Bank amounted to P752,017 and P2,150,034 as at December 31, 2015 and 2014, respectively. Investments are subject to the limitations of the agreement and all other actions pertaining to the fund are to be executed only upon explicit authority by the BOT of the fund.

As at December 31, 2015 and 2014, the Bank's contribution to its defined benefits retirement plan amounted to P134.5 million and P122.8 million, respectively. Benefits paid out of the Bank's plan assets amounted to P64.0 million and P54.1 million in 2015 and 2014, respectively (see Note 27).

Compensation of Key Management Personnel of the Bank

The remuneration of directors and other members of key management included in the "Compensation and fringe benefits" account in the statements of income for the years ended December 31, 2015 and 2014 follows:

	2015	2014
Short-term employee benefits	**P438,150,478**	P409,996,917
Post-employment benefits	**34,500,406**	36,079,535
	P472,650,884	P446,076,452

34. Acquisition of Selected Assets and Assumption of Certain Liabilities of TRB

A summary of the significant transactions related to the PSA entered into by the Bank with TRB on November 9, 2001 follows:

a. TRB sold and transferred, in favor of the Bank, identified recorded assets owned by TRB both real and personal, or in which TRB has title or interest, and which are included and deemed part of the assets listed and referred to in TRB's Consolidated Statement of Condition (CSOC) as at August 31, 2001. The said assets are inclusive of the banking goodwill of TRB, bank premises, licenses to operate its head office and branches, leasehold rights and patents used in connection with its business or products. In consideration of the sale of identified recorded assets, the Bank assumed identified recorded TRB liabilities including contingent liabilities as listed and referred to in its CSOC as at August 31, 2001. The liabilities assumed do not include the liability for the payment of compensation, retirement pay, separation benefits and any labor benefits whatsoever arising from, incidental to, or connected with employment in, or rendition of employee services to TRB, whether permanent, regular, temporary, casual or contractual and items in litigation, both actual and prospective, against TRB.

b. The Bank is allowed to avail of certain BSP incentives including but not limited to the following: (a) full waiver of the liquidated damages on the emergency loan of TRB and penalties related to reserve deficiencies and all other outstanding penalties at the time of acquisition may be paid over a period of one year, (b) relocation of branches shall be allowed within one year from the date of the BSP approval of the PSA. Relocation shall be allowed in accordance with BSP Circular No. 293. The 90-day notice requirement on branch relocation has been waived, and (c) availment of rediscounting facility window subject to present BSP regulations.

c. The Bank paid the outstanding emergency advances owed by TRB to BSP originally amounting to P2.4 billion through dacion en pago with mandatory buy-back agreement of certain assets of the Bank and TRB at a price set at 80.0% of the appraised value of those assets (see discussions on Settlement of Liabilities of TRB below).

d. The Bank arranged with PDIC a liquidity facility for the first year following the effectivity date in the amount not to exceed 10.0% of the assumed deposit liabilities of TRB to service unanticipated withdrawals by TRB depositors, subject to terms and conditions as may be imposed by PDIC.

Settlement of Liabilities of TRB

Part of the liabilities of TRB assumed by the Bank includes P2.4 billion emergency advances from the BSP. As settlement for the emergency advances, a dacion en pago with mandatory buy-back agreement involving certain bank premises and ROPA (with a dacion price equivalent to 80.0% of the average appraised value of the dacion properties) was executed. The dacion en pago with mandatory buy-back agreement contained the following significant terms and conditions:

a. The Bank may repurchase the bank premises and ROPA within 10 years from the execution of the agreement.

b. The buy-back price for the ROPA is the dacion price plus, if applicable, real estate taxes paid by the BSP. The buy-back price for the bank premises used in operations shall be the dacion price plus 6.0% simple interest per annum plus 50.0% of rental rates based on prevailing rates in the locality as mutually agreed by the parties with a 4.3% yearly increment.

c. Any gain on sale of the dacion properties within the 10-year holding period, in excess or over the buy-back price, net of any taxes paid related to the sale, shall be shared 70-30 between the Bank and BSP, respectively.

   As approved by the BSP, properties of the Bank and TRB with net book value amounting to P2.3 billion fully settled the liabilities to BSP assumed by the Bank from TRB amounting to P2.4 billion at the time of dacion; the difference amounting to P102.0 million was credited to other deferred credits (ODC) account. Expenses incurred related to the dacion of properties were offset against ODC.

   The Bank fully settled its emergency loan with the BSP in June 2012 through cash settlement and permanent transfer of dacioned properties.

FAA

The summary of significant transactions related to the FAA entered into by the Bank with the PDIC, for acting as a “White Knight” by agreeing to the terms and conditions of the PSA with TRB, follows:

a. The PDIC granted the Bank a loan amounting to P1.8 billion representing the amount of insured deposits of TRB as at June 30, 2001, which should have been paid by PDIC under a closure scenario. The proceeds of the loan were used to purchase a 20-year GS with a coupon rate of 15.0% per annum to be pledged as collateral for the loan. Yield on the 20-year GS (net of 20.0% withholding tax and the 3.0% interest to be paid on the loan from PDIC) shall be used to offset on a staggered basis, for prudential reporting purposes, against TRB’s unbooked valuation reserves on NPAs with a total face value of P4.5 billion, which was approved by the BSP to be booked as “Miscellaneous assets”. Pursuant to the requirements of PFRS, the impairment losses on the NPAs amounting to P4.4 billion and P4.5 billion, as at December 31, 2015 and 2014, respectively, were charged in full in the period incurred (see Note 15).

   On November 29, 2013, the Bank fully settled its loan from PDIC amounting to P1.8 billion.

b. The Bank infused additional fresh capital amounting to P200.0 million in 2001 and commits to infuse additional capital in the event a shortfall in order to comply with BSP’s pertinent regulations on minimum capital requirement.

c. The Bank agrees to comply with certain regulatory requirements, to provide information as required by the PDIC, to pursue realization of performance targets based on the financial plan, to secure PDIC’s written consent for the appointment of an external auditor, and to entitle PDIC to appoint a consultant.

d. The Bank shall not, among others, without the prior written consent of PDIC, grant new DOSRI loans, make any single major or significant total capital expenditures within five years as defined in the FAA, establish new banking offices or branches, dispose all or substantial portion of its assets except in the ordinary course of business, declare or pay cash dividends, effect any profit sharing or distribution of bonuses to directors and officers of the Bank not in accordance with the financial plan and other transactions or activities not in accordance with the financial plan.

   On September 22, 2009, the Bank and PDIC signed a Supplemental Agreement to the 2002 FAA with the following additional terms:

   - To the extent and in the context relevant to the terms of the FAA, PDIC hereby agrees to a limited adjustment of TRB's unbooked valuation reserves/deferred charges/accumulated operating losses, so as to include operating losses accumulated from the period October 2001 to July 2002 in the amount of P596.0 million which shall bring TRB's total unbooked valuation reserves, deferred charges and accumulated operating losses to P4.5 billion;

   - Extension of the FAA for such limited period as shall exactly be sufficient to fully set off on staggered basis the MA-TRB against the net yield of the new series 20-year GS to be purchased to replace the maturing GS in March 2022 and likewise to be pledged to PDIC; and

- Income resulting from the difference between the dacion price and book value of the assets as collateral to BSP, if any, as well as future collections derived by the Bank from NPLs covered by the unbooked valuation reserves shall be deducted from the above amount of P4.5 billion. Such set-off shall be formally and officially reported by BSP to PDIC.

The foregoing Supplemental Agreement did not constitute a significant modification of the terms of the PDIC's below-market loan to the Bank. Had the modification been significant, it would have resulted to the derecognition of the old liability and the recognition of the new liability at its fair value.

In addition, as part of the PSA, there were transactions allowed and approved by the BSP, which required different treatment under PFRSs. These transactions and their effects are described below:

Assumption of NPAs of TRB
In addition to the provisions of FAA and subsequent to the approval by the BSP and PDIC to recognize NPAs of P144.2 million as miscellaneous assets, the Bank negotiated with the BSP and PDIC to include as miscellaneous assets the additional operating losses of TRB amounting to P595.6 million incurred during the transition period of the Bank's assumption of TRB's assets and liabilities. As at December 31, 2002, a portion of the additional operating losses of TRB amounting to P227.2 million was approved by the BSP and PDIC to be included as additional miscellaneous assets. On April 28, 2003, the BSP approved the deferral of operating losses amounting to P596.4 million (instead of P595.6 million which was previously negotiated by the Bank and P227.2 million which was previously approved by the BSP) thereby increasing the TRB-related bookings to miscellaneous assets to P4.5 billion (see Note 15). NPL included under miscellaneous assets comprised TRB's loans amounting to P3.1 billion as at August 31, 2001 which is excluded in the determination of financial ratios, provisioning and computation of CAR based on the agreed term sheet. Also, BSP considered these miscellaneous assets as non-risk assets and are not subject to classification.

Pursuant to the requirements of PFRS, the impairment losses on the NPAs amounting to P4.4 billion and P4.5 billion, as at December 31, 2015 and 2014, respectively, were charged in full in the period incurred (see Note 15).

For its separate prudential reporting to the BSP, the Bank continues to recognize the P4.4 billion impairment losses on a staggered basis as provided under MB No. 1950 (see Note 15).

35. Notes to Statements of Cash Flows

The following is a summary of noncash activities of the Bank:

	2015	2014
Noncash investing activities:		
Additions to investment properties in settlement of loans	**P356,937,110**	P544,451,123
Increase in sales contracts receivable from sale of investment properties	**69,083,500**	161,917,800

36. Structured Notes

Structured notes pertain to the host contracts of debt securities issued by foreign counterparty banks, included under “AFS securities - net” account (see Notes 9 and 26) and “Loans and receivables - net” account (see Note 10) and derivative contracts of debt securities issued by foreign counterparty banks, included under “Financial assets and liabilities at FVPL” account (see Note 8), which contain features such as leveraged interest, prepayments options and credit linkage. These notes have various maturities with the farthest note maturing in 2042. These structured notes (credit linked note, leveraged credit linked note and collateralized debt obligation) have payoffs that are linked to the changes in the credit quality of specific reference assets most of which are Republic of the Philippines (ROP) bonds. Thus, when a credit event happens, these notes are terminated and the Bank either obtains the underlying reference asset or receives cash settlement equal to the fair value of underlying asset at the time of settlement adjusted for unwinding costs. The Bank, therefore, may lose all or substantially all of the principal invested.

PFRSs require that assets received shall be measured at fair values at date of exchange. Further, PFRSs provide that costs such as breakage costs which do not qualify as transaction costs be expensed as incurred.

In 2014, the Bank liquidated several structured notes with face value of $71.5 million (equivalent to P3.1 billion). The related net trading losses on termination of these financial instruments amounted to nil in 2014, are included in “Trading and investment securities gains - net” account in the statements of income (see Note 26). The Bank reversed the related embedded derivatives assets and liabilities amounting to P2.8 million and P10.2 million in 2014.

On January 30, 2015, the BOD approved the write-off of certain structured notes with total face value of $10.0 million (equivalent to P447.2 million) which are deemed worthless and have no possibility of collection. The said structured notes are fully covered with allowance for credit losses at the time of write-off.

37. Supplementary Information Required Under Revenue Regulation (RR) No. 15-2010

The Bureau of Internal Revenue (BIR) has issued RR No. 15-2010 which requires certain tax information to be disclosed in the notes to financial statements. The Bank reported and/or paid the following types of taxes for the year:

A. Other Taxes and Licenses

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

Details of taxes and licenses for the year consist of the following:

Documentary stamp tax	**P239,666,424**
Gross receipts tax	**189,245,715**
Real estate taxes	**27,903,333**
License and permit fees	**14,798,763**
Capital gains tax	**2,285,055**
Transfer taxes	**1,853,759**
Others	**9,908,396**
	P485,661,445

B. Withholding Tax Remittances to BIR

As withholding agent, the Bank remitted the following withheld taxes during the year:

Tax on compensation and benefits	**P227,443,345**
Final withholding taxes	**154,630,159**
Expanded withholding taxes	**47,689,532**
	P429,763,036

C. Deficiency Tax Assessments

Period Covered	**Amount***
2003	**P3,095,735**

**Amount of deficiency tax assessments, whether protested or not.*

Management, in consultation with its legal counsels, believes that the deficiency tax assessment above is without legal basis. Accordingly, the Bank has filed abatement on January 27, 2006 for the closure of the case. The said abatement is pending decision by the BIR.

D. Tax Cases

As at December 31, 2015, the Bank has no outstanding tax cases and assessments.

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President & CEO
Office of the President / CEO

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Branch Banking Group

Felipe Martin F. Timbol
Group Head
Treasury Management Group

SENIOR VICE PRESIDENTS

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Chief Compliance Officer
Compliance Division

Mary Mildred A. Bernardo
Group Head
Credit Group

Phebe F. Cabildo
Division Head
BBG-North Division

Ricardo A. Coreces
Group Head
Corporate Banking Group

Anna Marie A. Cruz
Division Head
Product Development, Marketing & Credit Cards Division

Joseph C. Justiniano
Group Head
Consumer Group

Reginald C. Nery
Chief Audit Executive
Internal Audit Division

Paul John T. Reyes
Division Head & Chief Dealer
TMG-Foreign Exchange Trading Division

Ma. Elena S. Sarmiento
Chief Trust Officer
Trust Services Division

Violeta M. Tirol
Division Head
BBG-South Division

Edel Mary D. Vegamora
CFO and Controller
Finance & Controllership Group

Edward Dennis J. Zshornack
Group Head
Executive Support Group

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BBG-Branch Operations Division

Numeriano Manuel V. Amparo
Division Head
CBG-Cash Management Division

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BBG-ND-Quezon City Central Area

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Division Head
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Danielyn P. Casaul
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Division Head
CoG-Consumer Loans Division

Antonio Basilio C. De Guzman
Division Head
TMG-Fixed Income Trading Division

Monette G. De Leon
Division Head
TMG-Product Engineering Structures & Investments Division

Marie Antoinette L. Dela Cruz
Division Head
OG-Treasury Operations Division

Louella P. Ira
Division Head
Legal Services Division

Chona C. Lacson
Area Head
BBG-SD-Metro Manila East Area

Aurora C. Manguerra
Division Head / Head
Corporate Planning Division concurrent TMG-Financial Institution

Aristeo S. Maralit
Division Head
OG-Electronic Banking & Card Support Division

Celestino C. Mendiola
Division Head
BBG-Branch System & Process Division

Jovencio R. Navarro Jr.
Division Head
BBG-VisMin Division

Marieta Bernadette A. Sevilla
Division Head
CBG-Corporate Banking IV Division

Juan Angel L. Tinio
Chief Information Officer
ESG-Information Technology Services Division

Jay S. Velasco
Group Head / Division Head
Operations Group concurrent Domestic Operations Division

Ma. Teresa L. Zamora
Division Head
TMG-Treasury Marketing & Sales Division

VICE PRESIDENTS

Morena V. Abadilla
Division Head
OG-International Operations Division

Georgina M. Borcelis
Area Head
BBG-ND-Metro Manila North Area

Andrew D. Cajucom
Department Head
PDMCC-Credit Card Marketing Department

Maria Ana P. Dela Paz
Division Head
CG-Credit Evaluation & Review Division

Annalyn D. Delos Santos
Area Head
BBG-SD-Makati Area

Alejandro Antonio B. Gaerlan
Division Head
TMG-Liquidity & Asset Liability Management Division

Noel R. Godoy
Division Head
CoG-Consumer Credit Division

Jocelyn Isabel S. Legaspi
Department Head
LSD-Operations Department

Corazon T. Llagas
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LSD-Litigation Department

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Project Manager
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Lucibar T. Perocho
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Jeremy H. Reyes
Department Head
IAD-Quality Assurance Review Department

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Area Head
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Girlie Isabel D. Umali
Department Head
ESG-AMRD-Remedial Management Department

Aiveth D. Yuseco
Department Head
CBG-CMD-Cash management Products Department

Jose Mari M. Zerna
Chief Risk Officer
Risk Management Division

ASSISTANT VICE PRESIDENTS

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Ma. Clariza M. Ang
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BBG-SD-MA-Ayala Branch

Cristina T. Ang Dy Pay
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BBG-ND-QCCA-Del Monte Branch

Sheilah R. Apostol
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FCG-General Accounting & Financial Systems Control Division

Lourdes V. Arriola
Branch Head
BBG-ND-MMNA-Malabon I Branch

Liberty A. Balgemino
Branch Head
BBG-SD-MMEA-Main Office (San Miguel) Branch

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Rowel H. Bijasa
Department Head
OG-DOD-Cash Services Department

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Chief Security Officer
Security Department

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David Marcelino Rock S. Chua
Department Head
Project Management Office

Peter M. Co
Branch Head
BBG-SD-MA-Pasong Tamo Ext. Branch

George E. Consul
Area Head
BBG-SD-South Luzon Area

Leah Antoinette C. Cruz
Department Head
HRMDD-Learning & Development, Employee and Labor Relations Department

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TMG-FITD-Domestic Fixed Income Department

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CG-CERD-Financial Institution Section concurrent CERD-Credit Evaluation Department

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PDMCC-Product Development Department

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Branch Head
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PDMCC-Marketing Services Department

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Division Head
FCG-Financial Accounting & Control Division

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ESG-ITSD-TOM-Network & Communications

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ESG-AMRD-Acquired Assets Management Department-Sales & Marketing Section

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Branch Head
BBG-ND-QCCA-Commonwealth Branch

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Department Head
TMG-FITD-Credit Trading / ROP Department

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BBG-ND-MCA-Soler Branch

Cecilia A. Rentoy
Division Head / Quality Assurance Officer
BBG-BOD-Branch Operations Quality Center concurrent Branch Operations Quality Center-VisMin

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Department Head
PDMCC-Alternative Channels Department

Carmen Dee P. Sallan
Department Head
LSD-Documentation Department

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CoG-CLD-Auto Loans Department

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Ma. Consuelo M. Tan
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BBG-VMD-MiA

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Arlyn C. Valero
Division Head
ESG-Business Systems & General Services Division

Baldwin V. Villena
Department Head
HRMDD-Compensation & Benefits Administration Department

BRANCH / ATM DIRECTORY

METRO MANILA	ATMS	BRANCHES
Caloocan	5	2
Las Piñas City	6	1
Makati City	12	11
Malabon	3	2
Mandaluyong City	11	2
Manila	19	12
Marikina	5	3
Muntinlupa	4	1
Parañaque	4	3
Pasay City	9	4
Pasig City	4	2
Quezon City	33	15
San Juan	1	1
Taguig	5	2
Valenzuela	3	1
LUZON		
Albay	2	1
Baguio	3	1
Bataan	3	1
Batangas	7	4
Bulacan	4	2
Cagayan	2	1
Camarines Sur	1	1
Cavite	4	2
Ilocos Norte	1	1
Ilocos Sur	4	2
La Union	4	1
Laguna	12	3
Nueva Ecija	1	1
Oriental Mindoro	1	1
Palawan	1	1
Pampanga	11	3
Pangasinan	8	3
Quezon	1	1
Rizal	5	1
Tarlac	1	1
Zambales	7	3
VISAYAS		
Aklan	3	1
Bohol	1	1
Capiz	1	1
Cebu	17	7
Iloilo	6	4
Leyte	3	2
Negros Occidental	7	4
Negros Oriental	1	1
MINDANAO		
Agusan Del Norte	4	1
Bukidnon	2	1
Davao	5	3
General Santos	1	1
Misamis Oriental	4	2
Zamboanga City	3	2
GRAND TOTAL	**265**	**128**

ATM AVAILABLE

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SALCEDO (ATM)
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FAIRVIEW PETRON (ATM)
Petron Fairview,
Commonwealth Avenue,
Fairview, Quezon City
376-1023 / 376-1025 (fax)

KAMUNING (ATM)
Tomas Morato Avenue
corner Dr. Lascano Street,
Barangay Sacred Heart,
Quezon City
922-7981 / 922-7982 /
261 0766

MALABON (ATM)
29 Gov. Pascual Acacia Avenue,
Malabon City
446-7385 / 219-0254 /
288-7571 (fax)

MALABON - GEN. LUNA (ATM)
55 Gen. Luna Street,
San Agustin, Malabon City
332-5392 / 441-0977 /
281-5612 (fax)

QUEZON AVENUE (ATM)
Sto. Domingo Church
Compound, No. 8 Biak na Bato
Street corner Quezon Avenue,
Quezon City
732-8360 / 712-2534 /
732-8360 (fax)

VALENZUELA
Unit 12 & 13 Puregold Price Club, Barangay Dalandanan, McArthur Highway, Valenzuela City
332-2260 / 794-6058 / 794-6064 (fax)

METRO MANILA SOUTH AREA

ALABANG
Unit 6 El Molito II Building, Madrigal Avenue, Alabang, Muntinlupa City
850-8718 / 219-0121 / 850-1574 (telefax)

B.F. HOMES
33 President's Avenue, Barangay BF Homes, Parañaque City
219-0149 / 403-8941 (telefax)

BICUTAN
35 Doña Soledad Avenue Better Living Subdivision, Parañaque City
776-4146 / 831-2546/ (02) 219-0129 / 823-2321 (fax)

DASMARIÑAS, CAVITE
Veluz-Frances Plaza Building, Aguinaldo Highway, Dasmariñas, Cavite
Manila Line: 529-8129 (telefax) / Cavite Line: (046) 416-2335

LAS PIÑAS
Elena Building, Real Street, Alabang-Zapote Road, Pamplona, Las Piñas City
556-1507 / 556-1501 / 556-1500 / 219-0128 / 556-1506 (fax)

MAGALLANES
G/F Tritan Plaza Building, Paseo de Magallanes, Makati City
851-1424 / 219-0153 / 854-9611 (telefax)

NAIA 1
NAIA Arrival Area Terminal 1, Pasay City
853-0712 / 219-0132 / 833-0713 (telefax)

NAIA 3
Stall 14, Arrival Lobby NAIA Terminal 3 Complex, Pasay City
833-7295 / 833-7293 (telefax)

ROSARIO
General Trias Drive, Barangay Poblacion, Rosario, Cavite
(046) 402-2062 / (046) 438-8451 (telefax)

SAN PEDRO
Pacita Commercial Complex, San Pedro, Laguna
808-2026 / 808-2002 / 808-3909 (fax)

SUCAT
Fortuna II Building, 8338 Dr. A. Santos Avenue, Sucat, Parañaque City
826-8415 / 219-0169 / 820-7747(fax)

METRO MANILA CENTRAL AREA

CALOOCAN
100 8th Avenue corner A. Del Mundo Street, Barangay 058, Caloocan City
287-2344 / 287-4709 (telefax)

DASMARIÑAS - BINONDO
STP Building, Dasmariñas Street corner Marquina Street, Binondo, Manila
247-1472 / 247-1473

GRACE PARK
G/F HGL Building 554 EDSA corner Biglang-Awa Street, Caloocan City
361-1832 / 219-0126 / 361-0931 (fax)

JUAN LUNA
465 Juan Luna Street, Binondo, Manila
241-0234 / 241-0407 (fax)

QUIAPO
609 Sales Street, Quiapo, Manila
733-9326 / 733-9366 (fax)

SOLER
1004 Reina Regente corner Soler Street, Binondo, Manila
244-7003 / 219-0120/ 244-7001 (telefax)

STO. CRISTO
Kim Siu Ching Foundation Building, 471-483 Sto. Cristo corner Jaboneros Street, Binondo, Manila
241-4151 / 242-0842 (telefax)

TUTUBAN
Units M2-60 21 and 22, Ground Center Mall, CM Recto Avenue, Manila
219-0124 / 353-0086 (fax)

METRO MANILA EAST AREA

CAINTA
40 Felix Avenue, San Isidro, Cainta, Rizal
682-8524 / 219-0214 / 682-6243 (telefax)

CONCEPCION
PACLEB Building, Bayan-Bayanan Avenue, Concepcion, Marikina City
941-0714 / 219-0125 / 942-0429 (telefax)

EASTWOOD - PETRON
188 E. Rodriguez Jr. Avenue (C-5), Bagumbayan, Quezon City
654-0084 / 211-9543 / 655-1204 (telefax)

GREENHILLS
Eisenhower Tower, No. 7 Eisenhower Street, Greenhills, San Juan City
727-4936 to 39 / 723-5380 / 721-0990 / 219-0207 / 722-4944 (fax)

MAIN OFFICE - SAN MIGUEL
Unit A, G/F San Miguel Properties Center, No. 7 Saint Francis Street, Mandaluyong City
635-5517 / 219-0213 / 633-2430 (telefax)

MARCOS HIGHWAY (CAINTA)
Unit 10, Thaddeus Arcade, Pitpitan Street corner Gil Fernando Avenue, San Roque, Marikina City
641-7172 / 219-2723/ 647-7165 (fax)

MARIKINA
J.P. Rizal Street, Sta. Elena, Marikina City
646-1808 / 219-3453 / 646-1802 (fax)

PASIG
Renaissance 2000 Tower, Meralco Avenue, Pasig City
635-0392 / 635-3661 / 219-0229/ 631-3769 (telefax)

PASIG BOULEVARD
152 Pasig Boulevard, Barangay Bagong Ilog, Pasig City
650-6560 / 650-6561 (fax)

WACK-WACK PETRON
553 Shaw Boulevard, Barangay Wack-Wack, Mandaluyong City
738-1984 / 219-0242 / 738-1985 (telefax)

METRO MANILA WEST AREA

ADUANA
G/F FEMII (Main) Building, A. Soriano Street, Aduana, Intramuros, Manila
527-2893 / 219-0180 / 527-2947 (telefax)

ERMITA
1312 A. Mabini Street, Ermita, Manila
254-7545 / 219-0178

PORT AREA
G/F Mary Bachrach corner 25th & A.C. Delgado Streets, Port Area, Manila
527-7986 / 219-0191 / 527-3978 (fax)

RESORTS WORLD
G/F Resorts World Complex, Newport City, Pasay City
551-3521 / 219-0197 / 551-3520 (fax)

ROXAS BOULEVARD
Kanlaon Towers, Roxas Boulevard, Pasay City
851-2680 / 219-0185 / 854-4071 (fax)

TAFT AVENUE
G/F Endriga Building, 2270 Taft Avenue, Malate, Manila
523-2297 / 219-0194 / 521-9124 (fax)

TAFT - PGH
G/F Mirasol Building No. 854 Apacible Street corner Taft Avenue, Ermita, Manila
536-4959 / 219-0199 / 526-6049 (fax)

UN AVENUE
429 Victoria Building, United Nations Avenue, Ermita, Manila
526-0590 / 219-0226 / 524-9935 (fax)

QUEZON CITY CENTRAL AREA

BROADCAST CITY
Broadcast City Compound, Capitol Hills Diliman, Quezon City
932-4628 / 219-0188 / 931-4969 (fax)

COMMONWEALTH
Upper G/F DEMA Building, Lot 1, Block 1, Capitol State-II, Commonwealth Avenue, Quezon City
952-7990 / 216-7636 / 952-7989 (fax)

CUBAO
Unit 1, G/F Harvester Corporate Center, P. Tuazon corner 7th & 8th Avenues, Barangay Socorro, Cubao, Quezon City
911-2486 / 219-0202 / 911-2485 (fax)

DEL MONTE
Bank of Commerce Building, Del Monte Avenue, corner D. Tuazon Street, Quezon City
410-8025 / 219-3786 / 743-2541 (fax)

DILIMAN
Commonwealth Avenue corner Masaya Street, Diliman, Quezon City
927-6074 / 219-7093 / 920-2324 (fax)

KATIPUNAN - PETRON
Petron Katipunan Complex, Katipunan Avenue corner Mangyan Road, La Vista, Quezon City
921-4020 / 219-0174 / 921-4042 (fax)

VISAYAS AVENUE
No. 15 Visayas Avenue Extension, Barangay Culiat, Quezon City
219-0155/ 426-4854 (fax)

WEST AVENUE
No. 68 - A Carbal Building West Avenue, Quezon City
374-5544 / 219-0168 / 374-5548 (fax)

WEST TRIANGLE
1451 Quezon Avenue corner Examiner Street, Quezon City
925-1209 / 219-0160/ 927-4063 (fax)

LUZON

NORTH LUZON AREA

BAGUIO
G/F YMCA Baguio Building, Post Office Loop (Upper Session Road), Baguio City
(074) 619-0073 / (074) 619-0072 (telefax)

CABANATUAN
V. P Building, Maharlika Highway Barangay H. Concepcion, Cabanatuan City, Nueva Ecija
(044) 940-1254 / (044) 940-1263 (fax)

CANDON
National Highway, Barangay San Jose, Candon City, Ilocos Sur
(077) 674-0623 / (077) 644-0288 (telefax)

CARMEN
McArthur Highway, Carmen, Rosales, Pangasinan
(075) 582-7365 / (075) 582-7370 (fax)

DAGUPAN
Eastgate Plaza Building, A.B. Fernandez East, Dagupan City, Pangasinan
(075) 522-8691 / (075) 522-8693 (telefax)

LAOAG
N. Corpuz Building, J.P. Rizal corner Gen. Hizon Street, Laoag City
(077) 677-2572 / (077) 617-1363 / 617-1603 (telefax)

SAN FERNANDO - LA UNION
Northway Plaza, National Highway, Barangay Sevilla, San Fernando City, La Union
(072) 700-1618 / (072) 242-5683 (telefax)

TUGUEGARAO
27 Bonifacio corner Washington Streets, Tuguegarao City, Cagayan
(078) 844-8041 / (078) 844-8044 (telefax)

URDANETA
The Pentagon Building, McArthur Highway, Nancayasan, Urdaneta City, Pangasinan
(075) 656-1017 / (075) 656-1018 (telefax)

VIGAN
Plaza Maestro Commercial Complex Jacinto corner Florentino Streets, Vigan City, Ilocos Sur
(077) 722-2119 / (077) 632-0802 (telefax)

CENTRAL LUZON AREA

ANGELES
McArthur Highway corner B. Aquino Street, Lourdes Sur East, Angeles City
(045) 626-2010 (telefax) / (045) 323-4130 (fax)

BALANGA
Paterno Street, Poblacion, Balanga City, Bataan
(047) 237-7622 / (047) 237-2366 (telefax)

BALIBAGO
McArthur Highway corner Victor Street, Balibago, Angeles City
(045) 892-0875 / (045) 331-3389 / (045) 625-5586 (telefax)

BALIUAG
Victoria Building, Poblacion, Baliuag, Bulacan
(044) 766-7701 / (044) 766-2811 (telefax)

IBA, ZAMBALES
TRB Building, Ramon Magsaysay Avenue, Iba, Zambales
(047) 602-1866 / (047) 811-1025 (fax)

MALOLOS
Paseo del Congreso, Malolos, Bulacan
(044) 791-0342 / (044) 791-2452 (telefax)

SAN FERNANDO
Insular Life Building, McArthur Highway, San Fernando, Pampanga
(045) 961-1624 / (045) 961-1680 (fax)

STA. CRUZ, ZAMBALES
National Road corner Misola Street, Poblacion South, Sta. Cruz, Zambales
047 831-1803 (telefax)

SUBIC
The Venue Annex Building, Unit A 101 Rizal Highway, Subic Freeport Zone, Zambales
(047) 252-1851 / (047) 252-1863 (telefax)

TARLAC
Unit 110-112, Rising Sun Building, Block 4, Barangay San Nicolas, McArthur Highway, Tarlac City, Tarlac
(045) 982-5401 / (045) 982-5365 (telefax)

SOUTH LUZON AREA

BATANGAS - CAEDO
Caedo Commercial Complex, Calicanto, Batangas City, Batangas
(043) 723-6773 / (043) 723-1410 (telefax)

BATANGAS - P. BURGOS
No. 27 P. Burgos Street, Batangas City, Batangas
(043) 723-0275 / (043) 723-0279 / (043) 723-0909 (telefax)

CALAMBA
Unit 6 & 7, New Parian Business Center corner Lawa Road, National Highway, Parian, Calamba City, Laguna
(049) 502-7922 / (049) 502-8508 (fax)

CALAPAN
Leona Yap Ong Building, J.P. Rizal Street, Calapan City, Oriental Mindoro
(043) 288-4496 / (043) 288-4031 (telefax)

LEGAZPI CITY
G/F Diabetes One-Stop Center, LANDCO Business Park, Legazpi, Albay
(052) 742-0691 / (052) 480-6054

LIPA
No. 7 Bank of Commerce Building., C.M. Recto Avenue, Barangay 9-A, Lipa City, Batangas
(043) 756-4214 / (043) 756-2558 (telefax)

LUCENA
Quezon Avenue corner Lakandula Street, Barangay IX, Lucena, Quezon
(042) 710-9692 / (042) 710-9691 (fax)

NAGA CITY
Romar-I Building, Elias Angeles Street, Naga City, Camarines Sur
Manila Line: 250-8093 (telefax) / (054) 473-4080 / (054) 811-8931

PUERTO PRINCESA
WD Building, J. Rizal Avenue, Barangay Manggahan, Puerto Princesa, Palawan
(048) 434-2171 / (048) 434-2172 / (048) 434-2170 (telefax)

STA. ROSA
Shop I-A G/F Paseo 3, Paseo de Sta. Rosa, Sta. Rosa City, Laguna
(049) 541-1546 / (049) 541- 1795 (telefax)

TANAUAN
Corachea Building, J.P. Laurel Highway corner Molave Street, Tanauan, Batangas
(043) 784-6907 / (043) 784-6994 / (043) 784-6990 (telefax)

VISAYAS

EASTERN VISAYAS AREA

CEBU - AYALA
8990 Negros Street,
Cebu Business Park,
Cebu City, Cebu
(032) 415-5164 /
(032) 239-0674 (telefax)

CEBU - BANILAD
G/F University of Cebu Building,
Gov. Cuenco Avenue
(Banilad Road)
Cebu City, Cebu
(032) 231-6704 /
(032) 316-9921 /
(032) 231-6706 (telefax)

CEBU - MAIN
B. Rodriguez corner
Osmeña Boulevard,
Cebu City, Cebu
(032) 253-1951 /
(032) 316-9912 /
(032) 255-4223 (fax)

CEBU STO NIÑO MAGALLANES
G/F, Unit 2, Martina Sugbo
Building, P. Burgos corner
Magallanes Streets,
Barangay Sto. Niño,
Cebu City, Cebu
(032) 254-1825 /
(032) 316-9925/
(032) 253-7708 (fax)

LAPU LAPU
Unit 3-5 AJS Building,
Pusok, Lapu-Lapu City, Cebu
(032) 341-3854 /
(032) 316-9927 /
(032) 341-3855 (fax)

MANDAUE
Entienza Building,
National Highway,
Mandaue City, Cebu
(032) 346-6901 /
(032) 316-9262 /
(032) 346-6902 (telefax)

MANDAUE - NRA
G/F City Time Square
Phase II, Mantawe Avenue,
Barangay Tipolo,
North Reclamation Area,
Mandaue City, Cebu
(032) 268-4693 /
(032) 316-9926 /
(032) 564-3249 (telefax)

ORMOC
Real Street, Ormoc City, Leyte
(053) 255-4366/
(053) 561-8523 (telefax)

TAGBILARAN
G/F Karan's Building,
B. Inting Street, 2nd District,
Barangay Poblacion ll,
Tagbilaran City, Bohol (Gulshan
Centre)
(038) 411-5400 /
(038) 411-3773 (telefax)

TACLOBAN
Door 12-13 RUL Building,
Barangay 15
Justice Romualdez Street
Tacloban City
(053) 832-2866 /
(+63917) 328-1721

WESTERN VISAYAS AREA

BACOLOD - ARANETA
Yusay Arcade,
Araneta Street, Bacolod City,
Negros Occidental
(034) 433-4667 /
(034) 433-2267 (telefax)

BACOLOD - CAPITOL
GR4 & GR5,
888 Chinatown Premier Mall,
Gatuslao Street,
Barangay 8, Bacolod City
(034) 433-4667

BACOLOD - LACSON
Corner 12th & Lacson Streets,
Bacolod City,
Negros Occidental
(034) 433-4238 /
(034) 433-1139 (telefax)

DUMAGUETE
CAP Building,
Rizal Avenue, Poblacion,
Dumaguete City, Negros Oriental
(035) 225-7668 /
(035) 422-6896 (telefax)

ESTANCIA
Clement Street,
Estancia, Iloilo City
(033) 397-0222 /
(033) 397-0220 (fax)

ILOILO - ATRIA
F & B2 UPMC Building,
Atria Park District,
Barangay San Rafael,
Manduriao, Iloilo
(033) 501-6013

ILOILO - IZNART
TCT Building,
Iznart Street, Iloilo City
(033) 335-0710 /
(033) 335-0712

ILOILO - J.M. BASA
G/F TTW Building,
J.M. Basa & Mapa Streets,
Iloilo City
(033) 337-8721 /
(033) 335-1020 (telefax)

KABANKALAN
Guanzon Street,
Kabankalan City,
Negros Occidental
(034) 471-2853 /
(034) 471-2253 (fax)

KALIBO
1280 Garcia Building,
C. Laserna Street,
Kalibo, Aklan
(036) 262-5294 /
(036) 268-9032 (telefax)

ROXAS CITY
Gaisano Arcade,
Arnaldo Boulevard,
Roxas City, Capiz
(036) 621-0845 /
(036) 621-1760 (fax)

MINDANAO

MINDANAO AREA

BUTUAN
G/F Cesia Building,
Montilla Boulevard,
Butuan City, Agusan del Norte
(085) 342-9320 /
(085) 342-9321 /
(085) 342-6248 (fax)

CAGAYAN DE ORO - LAPASAN
Suites 6 & 7, Gateway Tower 1,
Limketkai Center,
Cagayan de Oro City,
Misamis Oriental
(088) 856-3991 /
(088) 856-3977 (telefax)

CAGAYAN DE ORO - VELEZ
Don A. Velez-Akut Streets,
Cagayan de Oro City,
Misamis Oriental
(08822) 726880 /
(088) 856-4371 (telefax)

DAVAO - CITY HALL
Valgoson's Realty Building,
City Hall Drive, Davao City
(082) 226-4074 /
(082) 226-4075 (telefax)

DAVAO - LANANG
Consuelo Building,
KM 07, Barangay San Antonio,
Agdao District,
Lanang, Davao City
(082)234-1042 /
(082) 226-2859 (telefax)

DAVAO - RIZAL
CAP Dev't Center Building
Rizal Street, Davao City
(082) 226-2223/
(082) 222-0904 (telefax)

GENERAL SANTOS
G/F Sunshine Hardware
Building, Santiago Boulevard,
General Santos City
(083) 552-9375 /
(083) 552-5236 (telefax)

MARAMAG
TRB Building,
Sayre Highway, Poblacion,
Maramag, Bukidnon
(088) 238-5253/
(088) 238-5252 (telefax)

ZAMBOANGA - M. JALDON
Grand Astoria Hotel Building,
Mayor Jaldon Street,
Zamboanga City
(062) 991-0720/
(062) 991-2321 (telefax)

ZAMBOANGA - VETERANS
Veterans Avenue corner
Camanchile Street,
Zamboanga City
(062) 991-2381/
(062) 991-2980 (telefax)


AUTO LOAN

Bank of Commerce

SAN MIGUEL PROPERTIES CENTRE
No. 7 St. Francis St., Mandaluyong City

For any concerns, you may contact us at (02) 632-BANK (2265) or customerservice@bankcom.com.ph.

Bank of Commerce is supervised by the Bangko Sentral ng Pilipinas with telephone number (02) 708-7087
and e-mail address: consumeraffairs@bsp.gov.ph