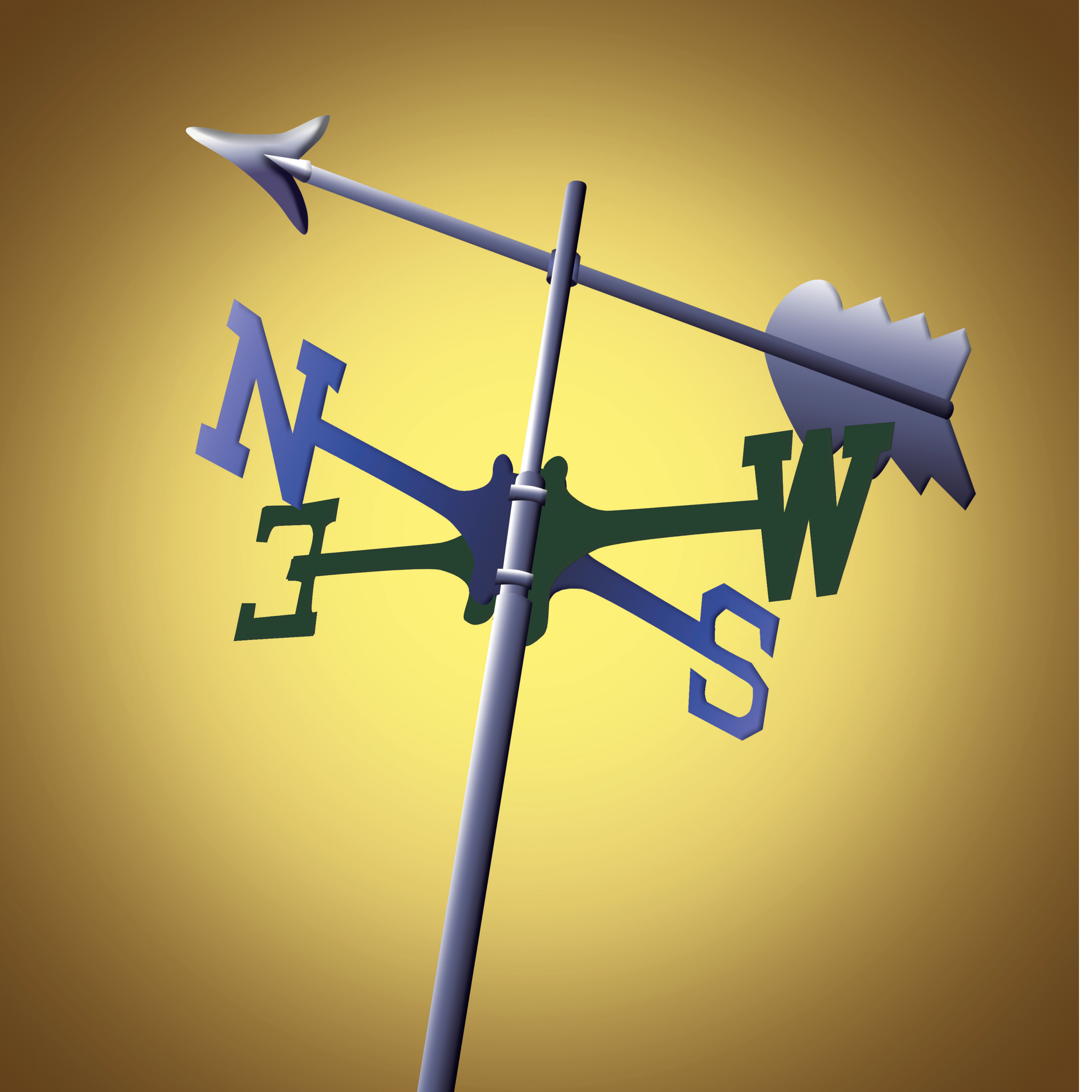
STRENGTH
STABILITY
SECURITY
SERVICE

Bank of Commerce

ANNUAL REPORT 2009

CONTENTS

Annual Report 2009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MISSION & CREDO

OUR MISSION

Our business is professional banking, we are committed to serve and satisfy the needs and best interests of our publics: our clients, our co-workers, our stockholders, and our community. As banking is based on trust, we will do business with the highest standards of personal integrity and service quality. We strongly believe in human resources, in their inherent dignity and well-being, and in their capability for growth. These being the key elements of our bank's success, we fully dedicate ourselves to their enhancement.
We will grow to be among the top performing banks in terms of profitability, efficiency and product delivery-reaching out to all our market.
Finally, we will make ourselves worthy members of society-contributing to the upliftment of our fellowmen and to the promotion of national development.

THE BC BANKER'S CREDO

I belong to the Bank of Commerce family. I commit to the highest ideals of banking and service. Excellence marks my work. I hold public trust sacred. Integrity defines my thoughts, words, and actions. I take pride in my institution. Commitment and professionalism manifest my loyalty. I care for others. Responsible citizenship links me to a broad vision. I keep faith in God. My Life is a testament to my belief. This is my Credo. It guides the course of my daily life and work. I constantly strive to be a true BC Banker.

Antonio O. Cojuangco
Chairman of the Board

Raul B. de Mesa
President and CEO

LETTER TO STOCKHOLDERS

Dear Fellow Shareholders,

2009 marked the beginning of the next stage in the long-term growth of Bank of Commerce and we are off to a good start. We produced record profits on the back of record revenues and our balance sheet is stronger than ever.

While we are pleased by these results, we are more excited by the prospects for the future following the strategic actions we have taken, including:

- Reinforcing our capital base through a series of actions that increased Tier 1 common capital;
- Restructuring our balance sheet, building our credit reserves, and writing-down legacy exposures in structured products to improve our risk profile;
- Repositioning our platform in core businesses to provide the foundation for sustainable, high-quality, lower volatility earnings;
- Enlisting best in market talent and retrofitting the organizational structure to further strengthen key functions and enable the Bank to pursue its business targets with superior technical support, operational and compliance mechanisms in place; and
- Implementing changes to the Board and Management committees to press forward towards the highest standards of corporate governance.

The decisive and thoughtful choices we have made, together with the prospects for the resumption of growth in the world economy, position us well for 2010 and beyond. Thanks to our enhanced capital, improved liquidity, bolstered reserves, reduced risks, and people committed to delivering superior customer service, we have a strong foundation for sustained growth and for serving our clients better than ever before.

In this letter, we will describe our 2009 performance and some of the ways we have pursued our vision for Bank of Commerce. First, we would like to review the critical events dating back to 2008 that affected our performance greatly.

Review of Key Events

With roots in economic imbalances across many countries, the story of the 2008 global financial turmoil is well documented so we will not recount it here in great detail. Suffice it to say that plummeting house prices and capital markets led to an acute economic downswing in the U.S. and most other developed countries. Many Asian economies including the Philippines were hit hard by falling trade and investment flows.

These extraordinary conditions seriously impacted the banking industry, and Bank of Commerce was not totally insulated. Intensified market disruption, significant valuation reductions, and negative trading results in Treasury operations took their toll on our performance. The charges recorded during the year masked an otherwise good operating performance by our core business activities particularly in the context of the market challenges we confronted at the time.

Faced with exceptional conditions, we responded promptly and prudently to reposition our business platform. We scaled back balance sheet in illiquid and volatile markets and added to our liquidity buffer. We adopted an improved approach to risk management and control processes by clarifying risk management roles and responsibilities as well as introducing more conservative investment and lending criteria.

Even before we entered this episode of extraordinary economic events however, we were already making good progress in fostering strategic partnerships and orchestrating successive capital raising arrangements to fortify our balance sheet, reinforce the capital base needed to support our customers and the Philippine economy we serve, and lay the foundation for the future expansion of the Bank.

The successful completion of our common stock offering beginning April 2008 and subsequent subscriptions to issuances of additional common shares that increased the Bank's authorized capital stock from P4 billion to P22 billion demonstrated the resolute confidence which you, our shareholders, have in our institution and we are sincerely thankful for your support.

In all these undertakings, gratitude and recognition must be given to the people behind our four new shareholders – San Miguel Properties, Inc., San Miguel Corporation Retirement Plan, Caritas Health Shield, and Valiant Ventures and Development Holdings. Their abiding trust and unwavering commitment to building a great company are reasons why, in a time when confidence is tested, we are more confident than ever that our institution can continue to invest in growth initiatives across the company, do well for our clients, and create long term benefits for shareholders.

Our Performance in 2009

Despite a contraction in our loan portfolio, we generated a record P8.5 billion in revenues in 2009. Net income was a record P561.9 million. These results are clear evidence that our strategic measures have put us back on the right track and that we are now reaping the dividends from purposeful structural reforms adopted in 2008.

In addition to making excellent progress on our business priorities throughout 2009, we achieved strong results across most of our business segments, fuelled by volume-driven increases in interest differential income, improved financial and capital market conditions that led to stronger results in our Treasury operations, and exceptional revenues from the sale of acquired assets.

Funds-based income was P3.2 billion compared with P2.9 billion a year earlier paced by our growing and successful deposit business. We continued to attract client deposits at a time of heightened uncertainty and expanded our funding base both through organic growth and by building our strategic partnerships. An increment of P8.9 billion pushed deposit balances to P86.8 billion representing an 11.5% increase over 2008.

These positives were somewhat offset by our lending business that saw declines. Loans and discounts decreased to P42.1 billion, down 11% from P47.3 billion in 2008, echoing the muted demand for credit.

In the face of these pressures, our strong capital base meant we were able to continue to focus on supporting our customers. We are not backing down from our obligation to play a responsible and important role in supporting an economic recovery. We are keenly aware of our responsibility to support the financial needs of individuals and institutions alike on which our future prosperity depends provided our risks are diversified, well-controlled, and proportionate to the business and customer opportunity.

On the other hand, Treasury services reported record revenues and earnings as a result of earlier successful positioning for lower interest rates. Market conditions were favorable as greater liquidity led to rising prices in our available-for-sale portfolios and market activity recovered from earlier depressed conditions. Average assets under management likewise increased given the slack in lending activity. The company's results included outstanding growth in other income. Our Acquired Assets Management Group in particular set a new record, posting P261.8 million in gains – more than four times the comparable year-ago total.

What Is Next For Bank of Commerce

The task before us today is to continue to build on the foundation for sustainable growth and ensure our continued success. While we are pleased with the historic performance of 2009, we must dedicate ourselves to improving the ways we do business mindful of the challenges the upcoming year poses.

Our management will stay keenly focused on the keys to our success. We will work to sustain our capital strength. We will continue to broaden and deepen our relationships with clients. And we will manage our risks as tightly as we can.

Our top priority right now must be to build on our capital strength so we will be in a good position to support our clients and play a leading role in the economic recovery that is to come. The Bank had raised P6.1 billion in fresh equity from the time it embarked on its capital build-up program in April 2008 up to the close of 2009. In the course of this year and next, the Bank expects to receive at least P9.5 billion in additional capital.

We will focus on doing what is right for our customers. Now, more than ever before, people need a safe, trustworthy, capable partner who can work with them to help plan and achieve their financial goals for a home, building a business, and retirement.

Our funding business will pursue an aggressive campaign for traditional deposits following a multi-pronged approach. It will grow compensating business of loan accounts and cash management clients. It will develop the CA/SA potential from the One Exchange initiative. It will bring in new clients through a series of programmed activities specifically focusing on customer relationships and targeted markets.

Despite soft loan demand at present, the lending business – our cornerstone business – is of critical importance. It is not just a source of revenue but is also central to supporting economic growth. A key goal is to continue to expand prudent lending to financially strong companies and individuals.

Apart from commercial lending, we also plan a major push in consumer credit and asset management. For this purpose, we have reinforced our Consumer Lending Group and our Trust Services Group, where we clearly can do better, by adding senior individuals who are knowledgeable and experienced to our talent pool.

We have likewise established the Transaction Banking Group that we believe will become the cornerstone of a broader Bank of Commerce leadership strategy in low-cost deposit and fee-income generation. Our basic objective is to capture the operating funds of client companies by aggressively selling our cash management products to appropriate market segments and utilizing our alternate delivery channels to service these customers at minimum cost. We will pursue synergistic opportunities with our business partners, such as the San Miguel Group, in the areas of network expansion and business generation.

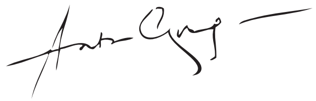
With interest rates now on the rise, our Treasury business will concentrate on intraday trades and be more active in the primary market to increase spreads. As the global economy begins to exit from recession, it will look into global assets suitable for our risk appetite with good profit potential. And it will aggressively search for opportunities to exit structured products at favorable market prices.

We will be growing our earnings, but not at the expense of smart, longer-term investments. We will continue to invest in the areas that drive future growth, such as new ATMs, and point-of-sale terminals. These investments are not confined to the front office. We have invested in new and improved systems. While there is a short-term cost for these investments, there is a long-term benefit of increased efficiency and improved quality.

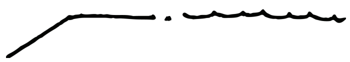
We still have a lot of work ahead of us but we continue to make good progress. Our success to date shows that we are clearly on the right path and we are confident that we have the elements in place to build long-term success for Bank of Commerce.

IN CLOSING

The past year and a half had been an extraordinary period that made extraordinary demands on many of our employees. They deserve our profound gratitude and praise. Throughout our tenure, we have been impressed by the commitment and talent of our people. It is because of these qualities that we as an institution not only successfully hurdled the challenges of the past but also turned them into a strategic opportunity to build an increasingly strong and profitable company. It has been a privilege to work with each of them and all of us on the Board are extremely grateful for their support.



Antonio O. Cojuangco
Chairman of the Board



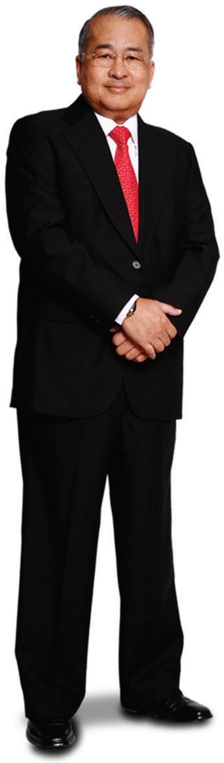
Raul B. de Mesa
President & CEO

“Our passion
is our strength.”

STRENGTH

For years, our passion has been to enhance the lives of our clients through our quality products and excellent services. In 2009, we strengthened our partnership with the San Miguel Group, one of the biggest and most trusted companies in the country and Southeast Asia's largest publicly listed food, beverage and packaging company.

Together with San Miguel Group's similar passion to provide quality products and reliable services, to be dynamic and a paradigm of leadership, the union of these like-minded and passion-driven companies has only strengthened our vision of success.



Antonio O. Cojuangco
Chairman

Raul B. de Mesa
Director/President/CEO

Ramon O. Cojuangco
Director

William Russell L. Sobrepeña
Director

BOARD OF DIRECTORS

Sergio G. Edeza	Jose L. Camus	Amb. Raul Ch. Rabe	Ferdinand K. Constantino	Jeronimo U. Kilayko
Director	Director	Director	Director	Director

Geoffrey M. Martinez
Director

Rene D. Reyes
Director

Jose T. Pardo
Director

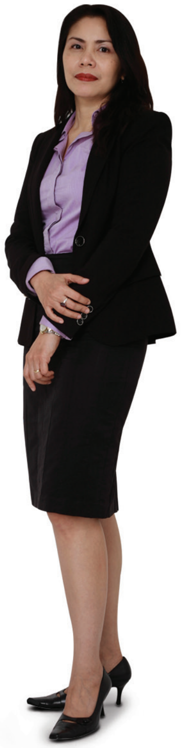
Francis C. Chua
Director

Amor C. Iliscupidez
Director

Roman Felipe S. Reyes
Director

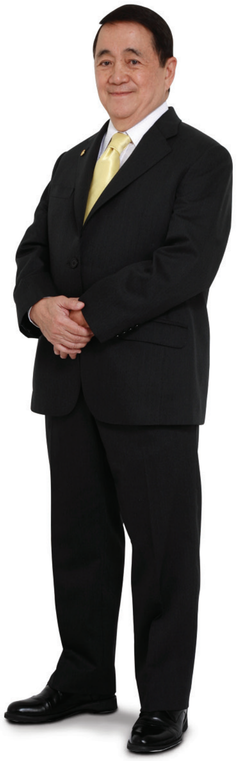
Atty. Francisco E. Rodrigo, Jr.

Corporate Secretary



Atty. Evita C. Caballa

Assistant Corporate Secretary



Atty. Rafael E. Evangelista

Board Adviser

Raul I. Goco

Board Adviser

Pres. Raul B. de Mesa	SVP Manuel L. Manalastas	VP Salome V. Panzo	VP Edgar R. Anabo	SVP Angelica H. Lavares
Director/CEO	Branch Banking Countryside Sector	Compliance Office	Strategic Planning Group	Strategic Support Sector

MANAGEMENT COMMITTEE

SVP Felipe Martin F. Timbol	SVP Phebe F. Cabildo	EVP Carmelita R. Araneta	EVP Arturo E. Manuel, Jr.	FVP William P. Sotto
Treasury Management Sector	Branch Banking Metro Manila Sector	Operations Sector	Credit Sector/Executive Support Sector	Account Management Sector

BOARD COMMITTEES

Audit Committee

Chairman	:	Amb. Raul Ch. Rabe
Members	:	Ferdinand K. Constantino
		Sergio G. Edeza
		Roman Felipe S. Reyes
		Rene D. Reyes

The purpose of the Audit Committee is to represent and assist the Board of Directors (BOD) in its general oversight of Bank's accounting and financial reporting processes, audits of the financial statements, and internal control and audit functions, as follows:

1. The preparation, presentation and integrity of the company's financial statements;

2. The transparent and proper reporting in accordance with accounting and financial reporting principles; and

3. The effective oversight of internal and external audit functions.

The Audit Committee serves a board level oversight role where it oversees the relationship with the independent external auditor, as set forth in its charter, receives information and provides advice, counsel and general direction, as it deems appropriate, to management and the auditors, taking into account the information it receives, discussions with the auditor, and the experience of the Committee's members in business, financial and accounting matters.

Board Risk Oversight Committee

Chairman	:	Jeronimo U. Kilayko
Members	:	Raul B. de Mesa
		Jose L. Camus
		Francis C. Chua
		FVP Freddie M. Domingo
		Sergio G. Edeza

The Board of Directors (BOD) is primarily responsible for establishing and maintaining a sound risk management system for the Bank.

The Board Risk Oversight Committee (BROC) shall assist the BOD with its oversight function to:

1. Identify and evaluate risk exposures;

2. Develop risk management strategies; and

3. Implement and periodically review the risk management plan.

Compensation Committee

Chairman	:	Ferdinand K. Constantino
Members	:	Jose T. Pardo
		Ramon O. Cojuangco, Jr.
		Roman Felipe S. Reyes

The Compensation Committee's main role is to ensure that the Bank's compensation programs, which include programs on salary, bonuses, retirement plan, employee loan program, other benefits and related programs are consistent with the Board's expressed and closely held management philosophies, beliefs and strategic directions.

Corporate Governance Committee

Chairman	:	Jeronimo U. Kilayko
Members	:	Raul B. de Mesa
		Ramon O. Cojuangco, Jr.
		Jose T. Pardo
		Amb. Raul Ch. Rabe

The Corporate Governance Committee is tasked with managing the process of evaluating the board as a whole as well as the individual members. The results of these evaluation processes are envisioned to:

1. Guide the committee in attracting and retaining directors with the qualifications and skill sets to oversee the overall management of the affairs of the bank;

2. Match individual director's qualifications and strengths in leading or becoming members of the different board committees; and

3. It may also be used to find ideas to further improve the board's interactions and performance.

Executive Committee

Chairman	:	Jeronimo U. Kilayko
Members	:	Antonio O. Cojuangco
		Raul B. de Mesa
		Francis C. Chua
		Jose L. Camus
		Edgardo A. Bautista
		William Russel L. Sobrepena
		Amor C. Iliscupidez

The Executive Committee (EXCOM) is empowered to approve and/ or implement all corporate acts within the competence of the Board of Directors (BOD) except those acts expressly reserved by the Corporation Code to the BOD.

Nomination Committee

Chairman	:	Jose L. Camus
Members	:	Raul B. de Mesa
		Jose T. Pardo
		Antonio O. Cojuangco
		Jeronimo U. Kilayko

The Nomination Committee shall pre-screen and shortlist all candidates nominated to the Board of Directors (BOD). The committee shall also perform such relevant functions that may be delegated to it by the BOD.

Trust and Investment Committee

Chairman	:	Jose T. Pardo
Members	:	Raul B. de Mesa
		Amor C. Iliscupidez
		William Russell L. Sobrepeña
		Delta A. Audencial
Consultant		Ramon O. Cojuangco, Jr.

The organization structure and definition of duties and responsibilities of the Trust and Investment Committee (TIC) shall reflect adherence to the minimum internal control standards prescribed by the Bangko Sentral ng Pilipinas.

MANAGEMENT COMMITTEES

Management Committee

Chairman	:	Pres. Raul B. de Mesa
Vice Chairman	:	EVP Arturo E. Manuel, Jr.
Members	:	EVP Carmelita R. Araneta
		SVP Phebe F. Cabildo
		SVP Manuel L. Manalastas
		SVP Angelica H. Lavares
		SVP Felipe Martin F. Timbol
		FVP William P. Sotto
		VP Ma. Salome Viloria-Panzo
Secretariat	:	VP Edgar R. Anabo

The Management Committee is ultimately responsible for setting the policies, strategy and direction of the Company, subject to the overall supervision of the Board of Directors (BOD).

Asset Liability Management Committee

Chairman	:	SVP Felipe Martin F. Timbol
Vice Chairman	:	EVP Arturo E. Manuel Jr.
Members	:	EVP Carmelita R. Araneta
		SVP Manuel L. Manalastas
		SVP Phebe F. Cabildo
		FVP William P. Sotto
		VP Edgar R. Anabo
		AVP Imelda S. Padilla
Secretariat	:	SM Sharon S. Andaya

The Asset Liability Management Committee (ALCO) shall be responsible for the setting, developing and implementing of the Bank's Asset Liability Management (ALM) and hedging policy. ALCO shall also monitor and review allocation of resources, pricing of products and foreign exchange position of the Bank on a weekly basis. Strategic policies and directions for the short-term are recommended by ALCO to management taking into consideration market development and their impact on the operations of the Bank.

ALCO is mandated to derive the most appropriate strategy for the Bank in terms of the mix of assets and liabilities to generate optimum levels of quality earnings and to guard against the potential consequences of market

BOARD AND MANAGEMENT COMMITTEES FUNCTIONS AND COMPOSITION

volatility, interest rate movement, liquidity constraints, foreign exchanges exposure and capital adequacy requirement in order to enhance or optimize risk-return.

Anti-Money Laundering Committee

Chairman	:	VP Ma. Salome Viloria-Panzo
Members	:	SVP Manuel L. Manalastas
		FVP Susan R. Alcala-Uranza
		AVP Imelda S. Padilla
		AVP Maria Victoria R. Gallardo

The Anti-Money Laundering Committee (AMLA) is primarily responsible for establishing and maintaining a sound AMLA Program for the Bank. The Committee shall assist the Board with its oversight function and assist Management in its responsibilities to implement AMLA related BSP circulars and implementing Rules and Regulations of the AMLC.

Capital Expenditure Committee

Chairman	:	AVP Imelda S. Padilla
Vice Chairman	:	SVP Rodelio A. Cayetano
Members	:	VP Edgar R. Anabo
Resources	:	AVP Daniel V. Montano
		M Alberto V. Janabajab

The purpose of the Capital Expenditures (CAPEX) Committee is to evaluate and approve or forgo proposals for capital expenditure requirements of Business and Support Groups. In line with the prudent management of the funds of the Bank, the committee reviews adequate controls in the acquisition of fixed assets and monitors that funds are appropriated to budgeted and/or necessary capital expenditures.

Committee on Disciplinary Action

Chairman	:	FVP Susan R. Alcala-Uranza
Vice Chairman	:	SVP Angelica H. Lavares
Members	:	SVP Paterno B. Nogoy, Jr.
		FVP Liberty S. Basilio
		FVP Jovencio R. Navarro
		FVP Freddie M. Domingo
		AVP Medallon R. Abrena

The Committee on Disciplinary Action (CoDA) will handle issues on employee discipline and administrative cases in lieu of the Committee on Fraud, Shortages and Overages (CFSO). The issues may involve offenses committed by employees ranging from serious to grave offenses that may warrant a more than five-day suspension up to the maximum penalty of termination.

In cases of light or serious offenses that are initially assessed as warranting a penalty of only up to a maximum of five-day suspension, the Bank expects immediate supervising officers to take the responsibility of conducting pre-investigation tasks of collating and ascertaining facts and informing the next higher ranking officer and Human Resource Management and Development Group of findings.

The underlying principle in handling disciplinary and administrative cases in this manner is that Line Officers should be actively involved in implementing the Code of Discipline provisions and other company rules, in line with their inherent role as Administrators or Managers of people; and, at the same time having a central body or Committee who will be responsible for ensuring that offenses, whether light or very serious, are dealt with in a uniform manner, following a set of clear guidelines and easy to follow procedural steps to ensure fairness and consistency of judgment.

Credit Committee

Chairman	:	EVP Arturo E. Manuel, Jr.
Members	:	FVP Romeo Vittorio D. Pascual
		EVP Carmelita R. Araneta
		SVP Paterno B. Nogoy, Jr. – Alternate

The Bank's Credit Committee (CRECOM) was formed for the purpose of being part of the approval process for transactions involving credit and credit related transactions.

Information Technology Steering Committee

Chairman	:	EVP Arturo E. Manuel Jr.
Vice Chairman	:	SVP Rodelio A. Cayetano
Members	:	EVP Carmelita R. Araneta
		SVP Phebe F. Cabildo
		FVP Numeriano Manuel V. Amparo
		VP Miriam C. Veloira
		VP Noel M. Cortez
		AVP Anna B. Nieva

The purpose of the Information Technology Steering Committee is to review and monitor the Company's technology strategy and significant technology investments in support of the Bank's business needs. Areas of review include: information technology strategy; significant new product lines or technology investments; and the Bank's response to external technology-based threats and opportunities. In addition, the Committee will oversee the Company's mitigation of any identified enterprise wide risks in the above areas.

Internal Capital Adequacy Assessment Process Steering Committee

Chairman	:	SVP Angelica H. Lavares
Vice Chairman	:	EVP Carmelita R. Araneta
Members	:	EVP Arturo E. Manuel Jr.
		SVP Manuel L. Manalastas
		SVP Felipe Martin F. Timbol
		FVP Freddie M. Domingo
		FVP William P. Sotto
		VP Edgar R. Anabo

To ensure that the Bank maintains an appropriate level and quality of capital, commensurate not just with risks covered by credit risk, market risk and operational risk but also with all other material risk to which it is exposed.

Internal Capital Process Technical Working Committee

Chairman	:	EVP Carmelita R. Araneta
Vice Chairman	:	AVP Imelda S. Padilla
Members	:	SVP Paterno B. Nogoy, Jr.
		SVP Phebe F. Cabildo
		FVP Freddie M. Domingo
		FVP Liberty S. Basilio
		FVP Susan R. Alcala-Uranza
		VP Edgar R. Anabo
		VP Miriam C. Veloira
		VP Noel M. Cortez
		VP Paul John T. Reyes
		VP Ma. Salome Viloria-Panzo

To ensure that the Bank maintains an appropriate level and quality of capital, commensurate not just with risks covered by credit risk, market risk and operational risk but also with all other material risk to which it is exposed.

Operations Oversight Committee

Chairman	:	EVP Carmelita R. Araneta
Vice Chairman	:	SVP Paterno B. Nogoy, Jr.
Members	:	SVP Angelica H. Lavares
		FVP Bernadette C. Basobas
		VP Eleanor Christina S. Castañeda
		VP Ma. Salome Viloria-Panzo
Secretariat	:	AVP Medallon R. Abrena

To undertake a thorough review of existing policies and procedures towards achieving productivity, operational; effectiveness and efficiency. To prescribe appropriate systems and controls necessary to address compliance with regulatory and internal policies.

Standards Committee

Chairman	:	SVP Angelica H. Lavares
Vice Chairman	:	FVP Susan R. Alcala-Uranza
Members	:	SVP Paterno B. Nogoy, Jr.
		FVP Allee Lourdes T. Sun
		FVP Isabelita S. Del Carmen
		VP Paul John T. Reyes

The purpose of the Standards Committee is to recommend rules and policies governing employment, salaries, wages, benefits and trainings; review performance evaluations, recommendations for promotion to the first officer ranks and within the junior officer hierarchy for the President's approval; evaluate and recommend manpower requirements and other organizational changes.

"To give real service,
you must add something which
cannot be bought or measured
with money, and that is sincerity
and integrity."

SERVICE

At Bank of Commerce, you will find services that fit your every need.

We take a holistic approach when it comes to providing quality services for our clients. For individual accounts, our services extend from the basic savings account to checking accounts, from short term investments to trust funds, from granting loans to giving rewards. And when it comes to corporate accounts, we even manage your company's cash, collect your billings from your company's clients and process your employees' paychecks so that you don't have to.

We pride ourselves in providing products that make our clients' transactions easier. Our team of experts is committed to the highest ideals of banking and constantly strives to be true BC Bankers.

DEPOSIT PRODUCTS

- Your Savings Account Passbook
- Your Savings Account ATM
- Your Savings Account Plus
- Your Checking Account
- Your Complete Checking Account
- Your Euro Savings Account
- Your Dollar Savings Account
- Your Premium Savings Account
- Your Premium Money Market
- Your Peso Time Deposit Account
- Your Five-Year Peso Fixed Monthly Time Deposit
- Your Five-Year Peso Fixed Compounded Time Deposit
- Your One-Year Time Deposit
- Your USD Time Deposit Account
- Your Euro Time Deposit Account

TREASURY PRODUCTS

- Fixed Income
  - Treasury Bills (T-Bills)
  - Fixed Rate Treasury Notes (FXTNs)
  - Retail Treasury Bonds (RTBs)
  - Republic of the Philippines Bonds (ROPs)
  - Corporate Notes

- Foreign Exchange
  - Spot FX Conversion
  - Forward FX Conversion

PRODUCTS & SERVICES

TRUST PRODUCTS/ SERVICES

- Our Personal Trust
- Our Retirement Fund
- Our Escrow
- Our IMA
- Our UITF
- Our Loan Agency
- Our Collateral Trusteeship
- Our Safekeeping

BUSINESS LOANS

- Direct Advance Loan
- Foreign Currency Denominated (FCD) Loans
- Secured Documentary Credits (Letters of Credit/Trust Receipts)
- Export Packing Credit
- Bills/Receivables Discounting Loans
- Domestic Bills Purchase
- Export Bills Purchase

CONSUMER LOANS

- Housing Loans
- Car Loans
- Salary Loans
- Credit Cards
    - Visa Classic
    - Visa Gold

CASH MANAGEMENT SERVICES

- Payroll Crediting
- Bills Payment Collection Services
- Customs Duties Tax Payments
- Deposit Pick-up

CHANNEL SERVICES

- Automated Teller Machines (ATM)
- bCommerce Internet Banking
    - Personal
    - Corporate

{ "A truly stable system expects the unexpected, is prepared to be disrupted, waits to be transformed." }

STABILITY

Stagnation and complacency is the beginning of deterioration. We must constantly change and reinvent ourselves. This year was a rebirth for us as Bank of Commerce underwent a major makeover. Internally, we changed the way we worked and opened our doors to more opportunities and partnerships, the most notable of which was our partnership with the San Miguel Group.

Our rebirth is most evident in our logo, which embodies the ideals of the new Bank of Commerce. The leaves signify growth and regeneration; the droplets signify clarity and transparency and lastly, the escudo of San Miguel Corporation which symbolizes a partnership of strength and dependability.

Through these changes, one thing persists - our name which has built a reputation of strength over the years as trusted by thousands of clients, colleagues and partners.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN

The management of BANK OF COMMERCE is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2009. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns field for the reporting period, including, but not limited, to the percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2009 and the accompanying Annual Income Tax Return are in accordance with the books and records of BANK OF COMMERCE, complete and correct in all material respects. Management likewise affirms that:

(a) The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) Any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;

(c) BANK OF COMMERCE has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

Raul B. de Mesa
President/ Chief Executive Officer

Felipe Martin F. Timbol
Treasurer

Imelda S. Padilla
Controller

FINANCIAL HIGHLIGHTS

KPMG

REPORT OF INDEPENDENT AUDITORS

The Stockholders and the Board of Directors
Bank of Commerce

We have audited the accompanying financial statements of Bank of Commerce (the "Bank"), which comprise the statement of financial position as of December 31, 2009, and the statement of operations, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements of the Bank as of and for the year ended December 31, 2008, were audited by other auditors whose report dated April 13, 2010, expressed a qualified opinion thereon as discussed further in the Other Matters paragraph, prior to the restatement as described in Note 38 to the financial statements.

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 (PFRS). This responsibility includes: designing, implementing and maintaining internal control 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

Bases for Qualified Opinion

As discussed in Note 14 to the financial statements, pursuant to Republic Act (RA) No. 9182, The Special Purpose Vehicle Act of 2002, the Bank sold certain nonperforming assets (NPAs) to a special purpose vehicle (SPV) in 2007 and 2005. As allowed under the provisions of RA No. 9182, the losses arising from the sale of the NPAs amounting to P432.1 million and P1.5 billion in 2007 and 2005, respectively, were deferred and amortized over a ten-year period. However, PFRS requires that the foregoing losses be recognized in full in the period such losses were incurred. Had the Bank fully recognized the losses arising from the foregoing sale of NPAs in the periods in which these were incurred as required under PFRS, total assets and equity would have decreased by P1.4 billion as of December 31, 2009, and net income in 2009 would have increased by P170.9 million.

As discussed in Notes 14 and 34 to the financial statements, the Bank acquired certain assets of Traders Royal Bank (TRB) totaling P4.5 billion under a purchase and sale agreement in 2002. The assets acquired were classified as part of miscellaneous assets and were determined to be impaired to the extent of P3.1 billion at acquisition date. The Bank deferred the full recognition of the impairment losses and instead recognized the required provisioning in its financial statements on a staggered basis. The Bangko Sentral ng Pilipinas (BSP) allowed and approved the staggered recognition of the foregoing required provisioning pursuant to the Financial Assistance Agreement between the Bank and the Philippine Deposit Insurance Corporation as discussed in Note 34 to the financial statements, PFRS requires the outright recognition of impairment losses in the period incurred. Had the Bank fully recognized the impairment losses on the miscellaneous assets acquired from TRB in the period when these were incurred as required under PFRS, total assets and equity would have decreased by P2.0 billion as of December 31, 2009, and net income in 2009 would have increased by P189.4 million.

The Bank determines its allowance for impairment and credit losses for financial and non-financial assets based on BSP provisioning rules and regulations, which differ from the requirements under PFRS in certain respects. Moreover, as discussed in Note 15 to the financial statements, the Bank recognizes BSP's provisioning requirements for financial assets on a staggered basis. Based on our independent assessment of the provisioning requirements of the Bank's financial and non-financial assets in accordance with PFRS, the allowance for impairment and credit losses should be increased by P892.3 million as of December 31, 2009. Fully recognizing such additional impairment losses in the period incurred as required under PFRS would decrease total assets and equity by P892.3 million as of December 31, 2009, and net income in 2009 would have increased by P2.0 billion.

Had the matters in the preceding paragraphs been accounted for by the Bank in accordance with PFRS, total assets and equity would have decreased by P4.4 billion as of December 31, 2009, and net income in 2009 would have increased by P2.4 billion.

Qualified Opinion

In our opinion, except for the effects on the financial statements of the matters discussed under Bases for Qualified Opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of Bank of Commerce as of December 31, 2009, and its financial performance and its cash flows for the year then ended in accordance with PFRS.

We also audited the adjustments described in Note 38 to the financial statements that were applied to restate the December 31, 2008 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Other Matters

The 2008 financial statements were audited by other auditors whose report dated April 13, 2009, expressed a qualified opinion thereon. Based on the report of the predecessor auditors, had the matters of qualification been properly accounted for in accordance with PFRS, the combined effects on the Bank's December 31, 2008 financial statements would have decreased assets and increased liabilities by

P8.9 billion and P1.8 billion, respectively, as of December 31, 2008, while equity and net income would have decreased by P10.7 billion and P6.1 billion, respectively, in 2008, prior to any restatement. More specifically, the report of the predecessor auditors expressed a qualified opinion due to the effects on the financial statements of the following matters:

a. Deferral of the full recognition of losses arising from the sale of NPAs in 2007 and 2005 to an SPV;
b. Deferral of the full recognition of the required impairment losses on the miscellaneous assets acquired by the Bank from TRB under the purchase and sale agreement in 2002;
c. Non-compliance with Philippine Accounting Standard (PAS) 40 "Investment Property" on the proper recognition of investment properties acquired prior to 2004;
d. Deferral of the full recognition of the required impairment and credit losses on the Bank's financial and non-financial assets;
e. Improper reclassification of embedded derivative instruments and host instruments of structured products, the original investment for which may not be substantially recovered in full other than due to credit deterioration of the issuer, out of the Fair-Value-through-Profit-or-Loss (FVPL) and the Available-for-Sale (AFS) categories, respectively, to the Unquoted Debt Securities Classified as Loans (UDSCL) category; and
f. Non-recognition of assets received from terminating certain structured investments in 2008 at their fair values at the time of exchange which were below the carrying values of the terminated structured investments, and the deferral of the related swap breakage costs.

As discussed in Notes 13, 36 and 37 to the financial statements, on January 1, 2009, in order to resolve the report qualification made by its predecessor auditors on items, c, e and f above, the Bank restated the relevant account balances in its 2008 financial statements as required under PFRS.

Manabat Sanagustin & Co.

MANABAT SAN AGUSTIN & CO., CPAs

PAUL BERNARD D. CAUSON
Partner
CPA License No. 0102267
SEC Accreditation No. 0798-A
Tax Identification No. 210 026 183
BIR Accreditation No. 08-001987-20-2009
Issued January 19, 2009; Valid until January 18, 2012
PTR No. 2092694MB
Issued January 7, 2010 at Makati City

March 16, 2010
Makati City, Metro Manila

BANK OF COMMERCE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009

(With Comparative Figures as of December 31, 2008 and January 1, 2008)

	Note	December 31, 2009	December 31, 2008 (as Restated, see Note 38)	January 1, 2008 (as Restated, see Note 38)
ASSETS				
Cash and Other Cash Items	*16*	P862,601,315	P887,541,945	P676,640,785
Due from Bangko Sentral ng Pilipinas	*16*	8,503,131,565	6,993,152,154	5,010,458,925
Due from Other Banks		1,651,638,376	863,884,580	811,522,253
Interbank Loans Receivable and				
Securities Purchased Under Resale Agreements	*7*	13,354,879,107	5,943,512,365	3,114,553,902
Financial Assets at Fair Value				
through Profit or Loss	*8, 36*	1,039,134,250	209,530,202	1,036,532,181
Available-for-Sale Securities	*9, 36*	14,919,392,088	10,218,753,743	16,234,061,072
Held-to-Maturity Investments	*9, 36*	10,820,102,227	11,384,324,043	2,752,493,456
Loans and Receivables - net	*10, 33, 36*	42,095,896,707	47,318,483,955	34,938,422,650
Investment in an Associate	*11*	66,704,303	70,287,958	73,785,068
Property and Equipment - net	*12*			
At cost		556,218,996	500,505,509	430,566,415
At appraised values		807,840,014	848,026,819	877,986,709
Investment Properties - net	*13*	4,140,192,693	4,241,871,420	4,352,275,879
Other Assets - net	*14*	5,884,235,784	5,932,893,677	5,947,969,094
		P104,701,967,425	P95,412,768,370	P76,257,268,389

	Note	December 31, 2009	December 31, 2008 (as Restated, see Note 38)	January 1, 2008 (as Restated, see Note 38)
LIABILITIES AND EQUITY				
Deposit Liabilities	16, 33			
Demand		P11,499,045,054	P8,266,601,905	P7,742,508,171
Savings		47,685,734,337	46,340,069,339	38,173,165,904
Time		27,631,207,328	23,269,471,594	15,325,649,921
		86,815,986,719	77,876,142,838	61,241,323,996
Financial Liabilities at Fair Value Through Profit or Loss	8	1,351,925,027	1,950,165,045	4,127,817
Bills Payable and Securities Sold Under Repurchase Agreements	17	2,861,031,205	6,459,637,644	4,963,925,563
Manager's Checks and Acceptances Payable		364,242,754	234,607,694	583,425,745
Accrued Interest, Taxes and Other Expenses	18, 27	739,555,260	886,323,672	725,847,852
Subordinated Debt	19	1,495,144,535	1,490,343,725	1,486,029,268
Other Liabilities	20	3,440,399,785	3,380,097,873	3,492,439,679
Total Liabilities		97,068,285,285	92,277,318,491	72,497,119,920
Equity				
Capital stock	20, 22	5,211,444,140	P2,915,888,800	P2,070,536,700
Paid-in surplus		4,326,809,599	2,373,956,331	1,323,955,931
Deposit for future stock subscriptions		-	500,769,600	500,000,000
Surplus reserves	23	158,302,856	102,302,856	302,345,546
Deficit		(2,501,714,304)	(3,019,297,428)	(964,515,056)
Revaluation increment on property		206,151,950	217,837,552	237,164,156
Cumulative translation adjustment	2	37,971,506	27,168,771	-
Net unrealized gains on available-for-sale securities		194,716,393	16,823,397	290,661,192
Total Equity		7,633,682,140	3,135,449,879	3,760,148,469
		P104,701,967,425	P95,412,768,370	P76,257,268,389

See Notes to the Financial Statements.

BANK OF COMMERCE
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2009

(With Comparative Figures for 2008)

	Note	2009	2008 (as Restated, see Note 38)
INTEREST INCOME			
Loans and receivables	*10, 33*	P4,857,608,910	P4,336,308,517
Trading and investment securities	*24*	1,334,015,207	1,321,694,763
Interbank loans receivable and securities purchased under resale agreements	*7*	257,773,298	273,698,872
Due from Bangko Sentral ng Pilipinas and other banks		225,461,578	185,673,040
Others	*20*	31,937,749	187,853,390
		6,706,796,742	6,305,228,582
INTEREST EXPENSE			
Deposit liabilities	*16, 33*	3,036,591,442	2,670,370,472
Bills payable and other borrowings	*17, 19*	451,563,709	765,927,214
		3,488,155,151	3,436,297,686
NET INTEREST INCOME		3,218,641,591	2,868,930,896
OTHER INCOME (CHARGES)			
Trading and investment securities gains (losses) – net	*26*	1,095,057,318	(1,916,373,092)
Service charges, fees and commissions - net	*25*	347,351,245	402,865,730
Gains on foreclosure or sale of repossessed assets - net	*13*	261,766,031	54,967,798
Foreign exchange gains - net		19,667,580	208,772,264
Miscellaneous	*9, 11, 28, 33*	39,010,930	50,985,672
		1,762,853,104	(1,198,781,628)

	Note	2009	2008 (as Restated, see Note 38)
OTHER EXPENSES			
Impairment losses	*15, 34*	1,208,379,533	585,866,279
Compensation and fringe benefits	*27, 33*	821,568,463	730,755,376
Taxes and licenses	*30*	591,319,963	453,226,726
Rent and utilities	*28*	491,046,549	435,004,015
Depreciation and amortization	*12, 13*	234,321,078	230,963,594
Amortization of software costs	*14*	35,992,648	48,440,475
Miscellaneous	*29*	816,498,676	746,914,692
		4,199,126,910	3,231,171,157
INCOME (LOSS) BEFORE INCOME TAX EXPENSE		782,367,785	(1,561,021,889)
INCOME TAX EXPENSE	*30*	220,470,263	153,571,064
NET INCOME (LOSS)		P561,897,522	(P1,714,592,953)

See Notes to the Financial Statements.

BANK OF COMMERCE
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009

(With Comparative Figures for 2008)

	2009	2008 (As Restated, see Note 38)
NET INCOME (LOSS)	P561,897,522	(P1,714,592,953)
OTHER COMPREHENSIVE INCOME		
Translation adjustments	10,802,735	27,168,771
Net change in fair value of available-for-sale securities	177,892,996	(273,837,796)
	188,695,731	(246,669,025)
TOTAL COMPREHENSIVE INCOME (LOSS)	P750,593,253	(P1,961,261,978)

See Notes to the Financial Statements.

BANK OF COMMERCE
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2009

(With Comparative Figures for 2008)

	Note	Capital Stock (Note 22)	Paid-in Surplus (Note 22)	Deposit for Future Stock Subscriptions (As Restated - see Note 22)
Balance as of December 31, 2008, as previously reported		P2,915,888,800	P2,373,956,331	P500,769,600
Prior-period adjustments	*38*	-	-	-
Balance as of December 31, 2008, as restated		2,915,888,800	2,373,956,331	500,769,600
Changes in fair value of available-for-sale (AFS) securities		-	-	-
Changes in fair value of AFS investments taken to profit/loss		-	-	-
Net movement in cumulative translation adjustment		-	-	-
Net income for the year		-	-	-
Total comprehensive income for the year		-	-	-
Proceeds from deposit for future stock subscriptions		-	-	-
Issuance of new shares		2,295,555,340	1,952,853,268	(500,769,600)
Cash dividends declared		-	-	-
Appropriation of surplus		-	-	-
Transfer of revaluation increment realized through depreciation		-	-	-
		2,295,555,340	1,952,853,268	(500,769,600)
Balance as of December 31, 2009		P5,211,444,140	P4,326,809,599	P -

Surplus Reserves (Note 23)	Deficit (as Restated - see Note 38)	Revaluation Increment on Property	Cumulative Translation Adjustment (Note 2)	Net Unrealized Gain (Loss) on Available-for-Sale Securities (as Restated - see Note 38)	Total Equity
P102,302,856	P124,167,696	P217,837,552	P27,168,771	(P371,228,708)	P5,890,862,898
-	(3,143,465,124)	-	-	388,052,105	(2,755,413,019)
102,302,856	(3,019,297,428)	217,837,552	27,168,771	16,823,397	3,135,449,879
-	-	-	-	177,892,996	177,892,996
-	-	-	-	-	-
-	-	-	10,802,735	-	10,802,735
-	561,897,522	-	-	-	561,897,522
-	561,897,522	-	10,802,735	177,892,996	750,593,253
-	-	-	-	-	500,000,000
-	-	-	-	-	3,247,639,008
-	-	-	-	-	-
56,000,000	(56,000,000)		-		-
-	11,685,602	(11,685,602)	-	-	-
56,000,000	(44,314,398)	(11,685,602)	-	-	3,747,639,008
P158,302,856	(P2,501,714,304)	P206,151,950	P37,971,506	P194,716,393	P7,633,682,140

	Note	Capital Stock (Note 22)	Paid-in Surplus (Note 22)	Deposit for Future Stock Subscriptions (As Restated - see Note 22)
Balance as of December 31, 2007, as previously reported		P2,070,536,700	P1,323,955,931	P500,000,000
Prior period adjustments	*38*	-	-	-
Balance as of December 31, 2007, as restated		2,070,536,700	1,323,955,931	500,000,000
Changes in fair value of available-for-sale (AFS) securities	*9, 38*	-	-	-
Changes in fair value of AFS securities taken to profit/loss		-	-	-
Net movement in cumulative translation adjustment		-	-	-
Net loss for the year	*38*	-	-	-
Total comprehensive for the year		–	-	-
Proceeds from deposit for future subscription		-	-	500,769,600
Issuance of new shares		1,050,000,400	1,050,000,400	(500,000,000)
Redemption of preferred stock		(204,648,300)	-	-
Reversal of appropriation of surplus		-	-	-
Transfer of revaluation increment realized through depreciation		-	-	-
Recognition of liability to preferred shareholders	*20*	-	-	-
		845,352,100	1,050,000,400	769,600
Balance as of December 31, 2008		P2,915,888,800	P2,373,956,331	P500,769,600

See Notes to the Financial Statements.

Surplus Reserves (Note 23)	Deficit (as Restated, see Note 38)	Revaluation Increment on Property	Cumulative Translation Adjustment (Note 2)	Net Unrealized Gain (Loss) on Available-for-Sale Securities (as Restated - see Note 38)	Total Equity
P302,345,546	(P38,082,406)	P237,164,156	P -	P290,661,193	P4,686,581,120
-	(1,165,800,218)	-	-	-	(1,165,800,218)
302,345,546	(1,203,882,624)	237,164,156	-	290,661,193	3,520,780,902
-	-	-	-	(370,703,195)	(370,703,195)
-	-	-	-	96,865,399	96,865,399
-	-	-	27,168,771	-	27,168,771
-	(1,714,592,953)	-	-	-	(1,714,592,953)
-	(1,714,592,953)	-	27,168,771	(273,837,796)	(1,961,261,978)
-	-	-	-	-	500,769,600
-	-	-	-	-	1,600,000,800
-	-	-	-	-	(204,648,300)
(200,042,690)	200,042,690	-	-	-	-
-	19,326,604	(19,326,604)	-	-	-
-	(320,191,145)	-	-	-	(320,191,145)
(200,042,690)	(100,821,851)	(19,326,604)	-	-	1,575,930,955
P102,302,856	(P3,019,297,428)	P217,837,552	P27,168,771	P16,823,397	P3,135,449,879

BANK OF COMMERCE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

(With Comparative Figures for 2008)

		2009	2008 (as Restated - see Note 38)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax expense		P782,367,785	(P1,561,021,889)
Adjustments for:			
Impairment losses	*15*	1,261,859,533	585,866,279
Unrealized loss (gain) on financial assets and liabilities at fair value through profit or loss	*26*	(817,488,599)	1,850,359,729
Accretion of interest income of subordinated debt		4,800,809	4,314,457
Gain on foreclosure or sale of foreclosed assets	*13*	(261,766,031)	(54,967,798)
Depreciation and amortization	*12, 13*	234,321,078	230,963,594
Amortization of other assets	*14*	35,992,649	48,440,475
Share in net loss of an associate	*11*	3,583,655	3,497,110
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Interbank loans receivable and securities purchased under resale agreements		(9,839,761,569)	(1,953,360,239)
Financial assets at fair value through profit or loss		28,606,085	(189,923,452)
Loans and receivables		4,355,712,301	(4,655,535,670)
Other assets		(379,992,769)	(250,354,654)
Increase (decrease) in:			
Deposit liabilities		8,939,843,881	16,634,818,842
Financial liabilities at fair value through profit or loss		(598,240,018)	40,412,239
Manager's checks and acceptances payable		129,635,060	(348,818,050)
Accrued interest, taxes and other expenses		(176,292,007)	146,935,956
Other liabilities		60,301,911	(332,483,962)
Net cash from operations		3,763,483,754	10,199,142,967
Income taxes paid		(213,226,504)	(116,441,595)
Net cash generated from operating activities		3,550,257,250	10,082,701,372

		2009	2008 (as Restated - see Note 38)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Available-for-sale securities	*9*	36,047,078,970	34,773,286,254
Held-to-maturity investments	*9*	597,722,625	383,138,461
Property and equipment	12	46,873,505	70,224,221
Investment properties	13	(615,950,369)	793,752,613
Deferred software cost	14	(36,373,647)	48,375,310
Additions to:			
Available-for-sale securities		(40,312,079,655)	(45,485,535,235)
Held-to-maturity investments	9	(28,700,000)	-
Property and equipment	12	(218,461,492)	(247,071,159)
Investment properties	13	577,432,071	(624,423,983)
Deferred software costs	14	76,763,189	(91,126,266)
Net cash used in investing activities		(3,865,694,803)	(10,379,379,784)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of capital stock	22	P4,248,408,608	P1,600,000,800
Bills payable and securities		(3,598,606,439)	1,495,712,081
Conversion of deposit for future stock subscription		(1,000,769,600)	500,000,000
Proceeds from deposit for future subscription		500,000,000	-
Redemption of preferred stock			(204,648,300)
Net cash generated from financing activities		149,032,569	3,391,064,581
Effect of exchange rate differences	2	10,802,734	27,168,771
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(155,602,250)	3,121,554,940
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		887,541,945	676,640,786
Due from Bangko Sentral ng Pilipinas		6,993,152,154	5,010,458,925
Due from other banks		863,884,580	811,522,253
Interbank loans receivable and securities		3,990,152,126	3,114,553,902
		12,734,730,805	9,613,175,866
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items		862,601,315	887,541,945
Due from Bangko Sentral ng Pilipinas		8,503,131,565	6,993,152,154
Due from other banks		1,651,638,376	863,884,580
Interbank loans receivable and securities		1,561,757,299	3,990,152,126
		P12,579,128,555	P12,734,730,805
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received		P7,286,676,876	P5,890,245,735
Interest paid		3,587,793,093	3,457,582,069

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 Securities and Exchange Commission (SEC) on October 20, 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 an Overseas Bank of Manila. The Bank received its Foreign Currency Deposit Unit (FCDU) license and launched its FCDU operations on September 23, 1983. 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.

The Bank's principal place of business is located at Phil. First Building, 6764 Ayala Avenue, Makati City. The Bank has a total of 117 and 113 branches nationwide as of December 31, 2009 and 2008, respectively.

The Bank's financial statements as of and for the year ended December 31, 2009 were approved and authorized for issue by the Board of Directors (BOD) on March 16, 2010.

2. Basis of Preparation

Statement of Compliance
The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), except for the following accounting treatment which was permitted by the BSP for prudential reporting purposes:

a. Deferral of the full recognition of losses arising from the sale of nonperforming assets (NPAs) in 2007 and 2005 to a Special Purpose Vehicle (SPV), representing the allowance for credit losses of these NPAs that were reallocated by the Bank subsequent to the sale to cover its provisioning requirements for other risk assets [This is allowed by BSP under the provisions of Republic Act (RA) No. 9182, *The Special Purpose Vehicle Act of 2002*.] (see Note 14);

b. Deferral of the full recognition of the required impairment losses on the miscellaneous assets acquired by the Bank from Traders Royal Bank (TRB) under the purchase and sale agreement (PSA) in 2002 [This is covered by MB Resolution No. 1751, dated November 8, 2001, as further amended by MB Resolution No. 489, dated April 3, 2003.] (see Notes 14 and 34);

c. Deferral of the full recognition of the required impairment and credit losses on the Bank's financial and non-financial assets [This resulted from differences in the recognition and measurement of allowance for impairment and credit losses under BSP regulations vis- à -vis PFRS.] (see Note 15).

Basis of Measurement
The financial statements of the Bank reflect the accounts of the Regular Banking Unit (RBU) and FCDU maintained in their respective books after eliminating significant inter-unit accounts. They 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 land and buildings, which are carried at fair value.

Functional and Presentation Currency
The financial statements are presented in Philippine peso, the functional currency of the Bank. The books of accounts of the RBU are maintained in Philippine Peso while those of the FCDU are maintained in USD (see Note 3, Foreign Currency Transactions).

Use of Estimates and Judgments
The preparation of financial statements in conformity with PFRS requires 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.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are discussed in Note 4 to the financial statements.

3. Summary of Accounting Policies

Adoption of New or Revised Standards, Amendments and Improvements to Standards and Interpretations
The accounting policies adopted by the Bank are consistent with those of the previous financial year except for the adoption of the following relevant new, revised, and amendments and improvements to existing standards, which became effective beginning January 1, 2009:

- Revised Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*, introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income" (i.e., statement that shows changes in equity during a period, other than those changes resulting from transactions with owners in their capacity as owners), which is presented either in: (a) one statement (i.e., a statement of comprehensive income); or (b) two statements (i.e., statement of income and a separate statement of comprehensive income presenting the net income for the period and components of other comprehensive income, net of tax, if any).

  Following the adoption of the foregoing revised standard effective January 1, 2009, the Bank: (a) changed the titles of its financial statements, (b) presented nonowner-related changes to equity as part of the statements of comprehensive income and statements of changes in equity (c) presented owner-related changes to equity as part of the statement of changes in equity, (d) presented a statement of financial position as of January 1, 2008 (the date being the beginning of the earliest comparative period presented) since the Bank restated its prior year financial statements (see Note 38) and (e) re-presenting comparative information in conformity with the revised standard. Additional disclosures required were also included in the financial statements, as appropriate.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*, require disclosures relating to fair value measurements using a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values and provide more direction on the form of quantitative disclosures about fair value measurements and require information to be disclosed in a tabular format unless another format is more appropriate. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk. As allowed by the amendments, in the first year of application, the Bank does not need to provide comparative information. Additional disclosures required were included in the Bank's financial statements, as appropriate (see Note 6).

- PAS 23, *Borrowing Costs*, requires capitalization of borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset. The Bank's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provision of the amended PAS 23, the Bank has adopted the standard on a prospective basis. The adoption of the revised standard did not have any significant impact on the financial statements of the Bank.

- Amendments to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Puttable Financial Instruments and Obligations Arising on Liquidation*, allows a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of the revised standard did not have any significant impact on the financial statements of the Bank.

- IFRIC 9, *Reassessment of Embedded Derivatives and PAS 39, Financial Instruments: Recognition and Measurement*, clarifies that on reclassification of a financial asset out of the FVPL category, all embedded derivatives have to be assessed and, if necessary, separately accounted for in the financial statements. The adoption of the revised standard did not have any significant impact on the financial statements of the Bank.

- *Improvements to PFRS 2008* discusses 45 amendments and is divided into two parts: (a) Part I includes 24 amendments that result in accounting changes for presentation, recognition or measurement purposes; and b) Part II includes 11 terminologies or editorial amendments that the International Accounting Standards Board (IASB) expects to have either no or only minimal effects on accounting. Except as discussed below, the adoption of the Improvements did not have any significant impact on the financial statements of the Bank.

Improvements to PAS 20, *Government Grants*, now requires that any benefit from a government loan with a below-market rate of interest should be treated as a government grant. The loan, on the other hand, shall be recognized and measured in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with PAS 39 and the proceeds received. The benefit, in turn, is accounted for in accordance with amended PAS 20 which requires the benefit to be amortized to profit or loss on a systematic basis over the period of the government loan. In evaluating the recognition of the benefit to profit or loss under the revised standard, the Bank considers the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

Except with respect to government grants as discussed below, the Improvements to PAS 20 supersedes the provisions of the local accounting interpretation made by the Philippine Interpretations Committee (PIC) through PIC Q&A 2007-02, *Accounting for Government Loans with Low Interest Rates*. The interpretation allowed three options on how to account for the benefit of the below-market interest from a government loan or the day 1 difference between the fair value and proceeds of the loan: (View 1) PAS 20 is fully applied (i.e., the government loan is recognized at the nominal amount of the loan and is not subsequently measured at fair value. Thus, no day 1 difference arises); (View 2) PAS 39 is fully applied (day 1 difference is recognized as income at initial recognition of the loan); and (View 3) the day 1 difference is recognized as income on a systematic basis over the period of the government loan.

Paragraph 43 of the Improvements to PAS 20, however, provides that the amendments shall be applied prospectively to government loans received in periods beginning on or after January 1, 2009, with earlier application permitted. Accordingly:

- Government loans received prior to January 1, 2009 will continue to be accounted under the accounting treatment chosen under PIC Q&A 2007-02;
- Government loans received on or after January 1, 2009 will be accounted for under the amended provisions of PAS 20.

BSP Circular 572, which was approved by the MB on June 7, 2007, mandated banks to adopt View 3 both for prudential reporting and financial reporting purposes. Accordingly, the Bank selected View 3 in accounting for its 'day 1 difference' arising, in particular, from the off-market loans it obtained from Philippine Deposit Insurance Corporation (PDIC) in 2002, pursuant to the Financial Assistance Agreement (FAA) discussed in Note 34 to the financial statements, and the emergency loan from BSP, which the Bank assumed from Trade Royal Bank (TRB) as discussed in Notes 13, 17 and 34 to the financial statements. The 'day 1 difference' is being amortized to profit or loss on a systematic basis over the remaining terms of the loans. The current accounting policy for the 'day 1 difference' is consistent with the accounting treatment prescribed under the Improvements to PAS 20. Further, as discussed previously, such improvements will be applied prospectively. Accordingly, there will be no adjustment to the financial statements of the Bank resulting from the adoption of Improvements to PAS 20.

The following explains the significant accounting policies which have been adopted in the preparation of the Bank's financial statements. These accounting policies have been applied consistently to all periods presented in these financial statements.

<u>Foreign Currency Transactions</u>

In 2008, the Bank changed its functional currency for its FCDU. Prior to 2008, the Bank's functional currency for its FCDU was Philippine peso. In 2008, in compliance with the requirements of BSP Circular 601, management formalized its determination of the FCDU's functional currency. Based on management's assessment, the functional currency of the Bank's FCDU is US dollar. As allowed, under PAS 21, *The Effects of Changes in Foreign Exchange Rates*, the change in functional currency was applied prospectively.

RBU

As at reporting date, foreign currency-denominated monetary assets and liabilities of the RBU are translated into Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at the end of the period. Foreign currency-denominated income and expenses are translated to Philippine Peso using the PDS closing rate (PDSWAR) as of transaction date. Foreign exchange differences arising from restatements of foreign currency-denominated monetary assets and liabilities of the RBU are credited to or charged against current period in which the rates change.

FCDU

As at the reporting date, the foreign currency-denominated assets and liabilities of the Bank's FCDU are translated using the PDS closing rate prevailing at the end of the period. Foreign currency-denominated income and expenses are translated using the Philippine Dealing System Weighted Average Rate (PDSWAR) for the period. Exchange differences for the period arising from translation are considered as part of other comprehensive income and taken directly to "Cumulative translation adjustment" account.

<u>Financial Instruments</u>

Date of Recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on trade date basis (i.e., the date that the Bank commits to purchase or sell the asset). Deposits, amounts due from other banks, and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

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 financial liabilities carried at amortized cost. The category depends on the purpose for which the investments 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 FPVL 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 profit or loss is not reversed. The value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Determination of Fair Value

The fair value for financial instruments traded in active markets at reporting date is based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flows method, price comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

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.

Financial Assets or Financial Liabilities Held for Trading

Financial assets or financial liabilities held for trading are recorded in the statement of financial position at fair value. Changes in their fair values are recognized in profit or loss as part of "Trading and investment securities gains (losses)" account. Interest earned or incurred is recorded as interest income or interest expense, respectively, while dividend income is recorded under "Miscellaneous income" account when the right to receive payment has been established.

Included in this classification are securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

Derivatives Recorded at FVPL

The Bank is a counterparty to derivative contracts, such as currency forwards, currency swaps, and interest rate swaps. 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 in profit or loss as part of "Trading and investment securities gains (losses)" account. Derivatives are carried as derivative assets when the fair value is positive and as derivative liabilities when the fair value is negative.

For the purpose of hedge accounting, 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 2009 and 2008, the Bank did not apply hedge accounting treatment for its derivatives transactions.

The Bank has certain derivatives that are embedded in host financial contracts (such as structured notes, debt investments, and loans and receivables). These embedded derivatives include, among others, credit default derivatives (which are linked either to a single reference entity or specific bond, a basket of reference entities, or constant maturities) in debt instruments such as long-term structured notes; conversion options in loans and receivables; call options in certain long-term debt, and foreign currency-denominated derivatives in debt instruments.

Embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, 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.

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 recorded in the statement of financial position at fair value. Changes in fair value are recognized in profit or loss as part of "Trading and investment securities gains (losses) – net" account. Interest earned or incurred is recorded as interest income or interest expense, respectively, while dividend income under recorded under 'Miscellaneous income' account when the right of the payment has been established.

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, private securities and other debt securities (e.g., host contracts of structured products).

After initial measurement, AFS securities are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the profit or loss. The unrealized gains and losses arising from the fair valuation of AFS securities are excluded, net of tax, from profit or loss and reported as other comprehensive income and presented under "Net unrealized gains or losses on AFS securities" account in the equity section of the statement of financial position.

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

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 sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the investment's effective interest rate (EIR). The amortization is included under "Interest income" account in the statement of operations. Gains and losses are recognized in profit or loss 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 as impairment losses in the statement of operations. The effects of revaluing foreign currency-denominated HTM investments are recognized in the statement of operations.

Loans and Receivables
Loans and receivables include cash and cash equivalents, balances due from BSP and from other banks, interbank loans and receivable and loans and 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 allowance for impairment 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 profit or loss as interest income. The losses arising from impairment are recognized under "Impairment losses" account in the statement of operations.

Other Liabilities at Amortized Cost
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, or to satisfy the obligation by issuing 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 amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees (e.g., debt issue costs on subordinated debt) that are an integral part of the EIR. This accounting policy relates to all liabilities in the statement 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 one year from reporting date.

Government Loans with Low Interest Rates
Government loans with low interest rates such as that granted by the PDIC, as discussed in Note 17 to the financial statements, are recognized initially at fair values, and the difference between the fair value of the loan and the proceeds of the loan is considered as a form of government grant and is recognized in profit or loss over the period of the loan using effective interest method.

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 agreements to repurchase (SSURA) at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as payable 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 statement of financial position. The corresponding cash paid, including accrued interest, is recognized in the statement of financial position as securities purchased under resale agreements (SPURA), 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 statement of operations 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 profit or loss.

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 one or more events that occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has 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 includes 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 (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 to current operations. Interest income continues to be recognized based on the original EIR of the asset. Loans, 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 estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged to operations are credited to the "Impairment losses" account in the statement of operations.

The estimated future cash flows is 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 EIR, is recognized as impairment losses in profit or loss.

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 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 profit or loss - is removed from equity and recognized in profit or loss for the period. Impairment losses on equity securities are not reversed to profit or loss but recognized directly in equity as part of other comprehensive income.

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 profit or loss 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 profit or loss for the period.

Offsetting

Financial assets and financial liabilities are offset with the net amount reported in the statement 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 statement 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 cash and other cash items, amounts due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements with original maturities of three months or less from dates of placement and that are subject to insignificant risk of changes in value.

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 guaranty has become probable).

Debt Issue Costs

Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instrument are deferred and amortized over the terms of the related debt instruments using the effective interest method. Unamortized debt issuance costs are netted against the related carrying value of the debt instruments in the statement of financial position.

Investment in an 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% and 50%. The Bank's equity investment in 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 associate is carried in the statement 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 profit or loss, 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 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 accumulated depreciation on buildings and any impairment in value recognized after the date of revaluation. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

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

If the carrying amount of property and equipment is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized as other comprehensive loss to the extent of any credit balance existing in the revaluation increment on property. The decrease recognized as other comprehensive loss reduces the amount accumulated in equity under "Revaluation increment on property" account in the statement of financial position.

An annual transfer from asset revaluation increment on property 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 surplus.

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.

The cost of property and equipment includes the cost of replacing a part of the property and equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is 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 follow:

	Years
Building	50
Furniture, fixtures and equipment	3 - 5
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 profit or loss in the period the asset is derecognized.

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

Investment Properties

Investment properties, including those acquired from foreclosure or dacion en pago, are initially measured at cost including transaction costs. An investment property acquired through an exchange transaction is measured 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 cost less accumulated depreciation and impairment in value, except for land which is carried at cost less impairment in value.

Repairs and maintenance costs relating to investment properties are normally charged to profit or loss in the period in which the costs are incurred.

Depreciation is calculated on a straight-line basis based on the useful lives of the building which ranges from 3 to 45 years from the time of acquisition.

The period and method of depreciation are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

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 profit or loss under "Gains on foreclosure or sale of foreclosed assets" 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.

Intangible Assets

Intangible assets acquired separately, included under "Other assets" account in the statement 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, excluding capitalized development costs, are not capitalized but recognized in profit or loss 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 useful economic 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 at 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 profit or loss 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 profit or loss in the period when the asset is derecognized.

Software Costs

Software costs (classified under "Other assets" account in the statement of financial position) include costs incurred relative to the development of the Bank's software and are amortized on a straight-line basis over five years. Software costs are carried at cost less accumulated amortization and any impairment in value.

Goodwill

The excess of the consideration for a business acquisition over the fair value of the identifiable assets acquired less liabilities assumed is recorded as goodwill and recognized as an asset in the statement of financial position. Following initial recognition, goodwill is carried at cost less accumulated impairment losses.

Impairment of Nonfinancial Assets

Property and Equipment, Investment Properties and Intangible Assets (Except Goodwill)

At each reporting date, the Bank assesses whether there is any indication of impairment on property and equipment, investment properties, 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 cots 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 the 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 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 reversal is recognized in profit or loss.

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 life.

Goodwill
Goodwill is reviewed for impairment at least, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the net recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash operating units, but only to the groups of cash-generating units. As a result, the lowest level within the Bank at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash generating units to which the goodwill relates but cannot be allocated. Where the net recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the goodwill relates but cannot be allocated), an impairment loss is recognized in profit or loss for the period. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its net recoverable amount in future periods.

Income Recognition
Income 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. The following specific recognition criteria must also be met before income is recognized:

Interest Income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS securities, interest income is recognized using the effective interest method. The EIR of a financial instrument 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 contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recognized in profit or loss as interest income.

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 used to discount future cash flows.

Trading and Investment Securities Gains (Losses)
Trading and investment securities gains (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 liabilities at FVPL (unrealized gains or losses).

Fees and Commission
Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, portfolio and other management fees.

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

Retirement Benefits
The Bank determines its retirement expense and retirement benefits liability using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period.

The retirement benefits liability recognized in the statement of financial position in respect of defined benefits retirement plans (see Note 27) is the present value of the defined benefits obligation at the valuation date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefits obligation is calculated annually by an independent actuary using the projected unit credit method. 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. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged against or credited to profit or loss when the net reporting cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded 10% of the higher of the present value of defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the Plan.

Past service costs, if any, are recognized immediately in profit or loss for the period, unless the changes to the Plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

The defined benefits liability comprises the present value of the defined benefits obligation less past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly.

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 statement of operations 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 recognized 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, using the liability method, 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 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 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 Liabilities and Contingent Assets

Contingent liabilities are not recognized in the financial statements but are disclosed 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 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.

Future Changes in Accounting Policies

The Bank has not applied the following new, revised, amendment, and improvements to existing standards that have been approved by the Financial Reporting Standards Council (FRSC) but are not yet effective for adoption as of the year ended December 31, 2009:

Effective 2010

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement -Eligible Hedged Items*, provide for the following: a) new application guidance to clarify the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedge relationship; and b) additional application guidance on qualifying items; assessing hedge effectiveness; and designation of financial items as hedged items. The amendments are effective for annual periods beginning on or after July 1, 2009.

- Philippine Interpretation IFRIC-17, *Distributions of Non-cash Assets to Owners*, provides guidance on the accounting for non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. It also applies to distributions in which the owners may elect to receive either the non-cash asset or a cash alternative. The liability for the dividend payable is measured at the fair value of the assets to be distributed. The interpretation is effective for annual periods beginning on or after July 1, 2009.

- *Improvements to PFRSs 2009*, include 15 amendments to 12 standards. Some of the these amendments may have significant implications for current practice. The improvements are generally effective for annual periods beginning on or after January 1, 2010.

To be Adopted on January 1, 2013

- PFRS 9 *Financial Instruments*, is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. The new standard is effective for annual periods beginning on or after January 1, 2013.

4. Use of Judgments and Estimates

The following are the critical judgments, key estimates and assumptions that have a significant risk of material adjustment to the carrying amounts of assets, liabilities, income and expenses, and discussions of contingent assets and contingent liabilities.

Judgments

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) Fair Value of Financial Instruments

The fair value of financial instruments traded in active markets (such as those classified under FVPL and AFS securities) is based on quoted market prices at the reporting date. Where the fair values of financial assets and financial liabilities (including derivatives) recognized in the statement 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) Embedded Derivatives

Where a hybrid instrument is not classified as financial assets at FVPL, the Bank evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

(d) HTM Investments

The Bank classifies non-derivative financial assets with fixed or determinable payments and fixed maturities as HTM. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, sales that are so close to maturity - it will be required to reclassify the entire portfolio as AFS securities. The investments would therefore be measured at fair value and not at amortized cost. As of December 31, 2009 and 2008, the market value of HTM investments amounted to P14.0 billion. As of December 31, 2009 and 2008, the carrying value of HTM investments amounted to P10.8 billion and P11.4 billion, respectively (see Note 9).

(e) 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 in consultation with outside counsel handling the Bank's legal defense in these matters and is based upon an analysis of potential results. The Bank 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).

(f) Operating Leases

Bank as Lessor

The Bank has entered into commercial property lease agreements for its investment properties. The Bank has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on 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 useful economic life of the leased property and bearer of executory costs, among others, are considered.

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.

Estimates

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) *Impairment of AFS Securities*

The Bank classifies certain financial assets as AFS securities and recognizes movements in their fair values as other comprehensive income. 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% or more of the original cost of the investment, and "prolonged", greater than 6 months. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. As of December 31, 2009 and 2008, required allowance for impairment losses on AFS equity securities amounted to P296.1 million and P213.4 million, respectively, of which P50.0 million and P40.9 million was recorded by the Bank as of December 31, 2009 and 2008, respectively (see Note 9). As of December 31, 2009 and 2008, AFS equity securities amounted to P338.3 million and P410.3 (as restated) million, respectively (see Note 9).

The Bank determines that AFS debt securities are impaired when there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of debt securities before the decrease can be identified with an individual debt security in that portfolio. The process of estimating future cash flow is similar to that performed by management in determining credit losses of loans and receivable. As of December 31, 2009 and 2008, required allowance for impairment losses on AFS debt securities amounted to P740.5 million and P683.1 million, respectively, of which P462.0 million and P446.4 million was recorded by the Bank as of December 31, 2009 and 2008, respectively (see Note 9). As of December 31, 2009 and 2008, AFS debt securities amounted to P14.6 billion and P9.8 billion (as restated), respectively (see Note 9).

As of December 31, 2009 and 2008, the carrying value of AFS securities of the Bank amounted to P14.9 billion and P10.2 (as restated) billion, respectively.

(b) *Valuation of Unquoted Equity Securities*

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

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

The determination of the cash flows and discount factors for unquoted equity securities requires significant estimation. The Bank calibrates the valuation techniques periodically and tests them for validity using either prices from observable current market transactions of the same instrument or from other available observable market data. See Note 9 to the financial statements for the information on the carrying amounts of these securities.

(c) *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. In determining whether an impairment loss should be recognized in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables before the decrease can be identified with an individual loan or receivable in that portfolio. 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. As of December 31, 2009 and 2008, required allowance for impairment and credit losses on loans and receivables amounted to P4.5 billion and P7.1 billion, respectively, of which P4.3 billion and P3.6 billion (as restated) were recognized as of December 31, 2009 and 2008, respectively (see Notes 10 and 15). The carrying value of loans and receivables amounted to P42.1 billion and P47.3 billion (as restated) as of December 31, 2009 and 2008, respectively (see Note 10).

The Bank determines the allowance appropriate for individual accounts whose outstanding balance or advances as of reporting date is either past due or in litigation as of December 31, 2009 and those with balances of P5.0 million and above as of December 31, 2008.

(d) *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. As discussed in Note 30 to the financial statements, the Bank recognized deferred tax assets amounting to P715.4 million and P481.8 million as of December 31, 2009 and 2008, respectively.

Based on management's expectation of its future taxable income, the Bank did not recognize deferred tax assets on NOLCO, MCIT and other temporary differences totaling P7.9 billion and P7.2 billion as of December 31, 2009 and 2008, respectively (see Note 30).

(e) *Impairment of Nonfinancial Assets*

Property and Equipment and Investment Properties

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. The net recoverable amount is computed using the value in use approach. Net recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

As of December 31, 2009 and 2008, the combined carrying value of the property and equipment and investment properties amounted to P5.5 billion and P5.6 billion, respectively. As discussed in Note 15 to the financial statements, the Bank has not provided additional impairment losses on investment properties amounting to P86.0 million and P108.0 million as of December 31, 2009 and 2008, respectively.

Goodwill

The Bank's management conducts an annual review for any impairment in value of goodwill.

Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the related business line or cash generating unit is insufficient to support its carrying value. The Bank used its internal cost of funds in discounting the expected cash flows from specific cash generating units. The internal cost of funds incorporate the percentage ratio of interest on deposits generated, net of income on reserves, to loanable funds, net of reserve requirements.

Since 2007, the Bank considered its goodwill as fully impaired since management assessed that there are no longer future cash flows for cash generating units to which the goodwill relates. No reversal of impairment losses on goodwill is allowed under PFRS.

(f) *Estimated Useful Lives of Property and Equipment and Investment Properties*

The useful life 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 investment properties.

(g) *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, expected rate of return on plan assets, future salary increases and mortality rates. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty.

The expected rate of return on plan assets of 7.0% in 2009 and 2008 were based on average historical premium of the fund assets. 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 of reporting date. The present value of the retirement obligation of the Bank amounted to P341.1 million and P302.3 million as of December 31, 2009 and 2008, respectively (see Note 27).

5. Financial Risk Management Objectives and Policies

Introduction

The business of banking involves financial risks but must be measured, monitored and managed by an effective risk management system embedded throughout the whole organization. Effective risk management ensures that financial risks taken 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 shall 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 risks.

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 with managing the process of evaluating the Board as a whole, as well as the individual members.

Audit Committee

This is a required BOD sub-committee basically tasked to oversee the activities and findings of the Internal Audit Group and Compliance Group. The Audit Committee also reviews the financial performance of the Bank.

Board Risk Oversight Committee (BROC)

The BROC, a sub-committee of the BOD, is authorized to oversee the Bank's risk management system. It has the responsibility of evaluating all the existing and potential risks faced by the Bank. It conducts studies on the effectiveness of the risk management systems in place and assesses the Bank's institutional projects pertaining to risk management.

Risk Management Group (RMG)

The RMG 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 RMG also prepares risk reports for the BROC.

Asset and Liability Committee (ALCO)

The significant risk responsibility of the ALCO is to ensure that the Bank has adequate liquidity, capital and funding for business and regulatory requirements. It is also responsible for all risk asset products pricing policies.

Credit Committee (Crecom)

The Crecom is responsible for the evaluation and approval of credit proposals subject of approval 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 Group/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 Group

The Bank's Legal Group has the primary function of reviewing all documents for completeness and enforceability under respective legal jurisdictions.

Compliance Group

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

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 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 Risk Management Group.

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

Quality of credit risks are measured via risk classifications of accounts under 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 quarterly basis. All risk information are processed, analyzed and consolidated for proper reporting to the BOD through the BROC, Auditcom as well as the Management Committee of the Bank.

Actual and estimated risk exposures/losses at Treasury, Credit Management, 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, service level of major information technology systems and Automated Teller Machines.

Risk Mitigation

To mitigate market risk exposures, derivatives and other financial instruments are used to manage exposures resulting from changes in foreign currency risk.

To mitigate overall risk exposures, the Bank maintains a capital adequacy ratio (CAR) of 10% or better at all times.

To mitigate credit risks, it is a matter of policy to secure government agency guarantees for loan exposures to small and medium-sized companies.

Excessive Risk Concentration

The Bank believes that it does not have excessive risk concentration to borrowers, industries where borrowers belong and investments to different available outlets.

Credit risk concentration on loans is managed through internal and regulatory single borrowers and group limits. Credit exposures to the different borrowers are limited to 2%, 6% or 8% of portfolio depending on the industry subsegments, as applicable to the debtor.

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 risk manual and the credit policy supervision memoranda series that define 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 authorities of committees and individuals duly approved by the BOD.

The Bank's primary element of the 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.

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 to profit or loss for the period under

"Trading and investment securities gains (losses)" account. Credit risk in respect of derivative financial instruments 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 that the Bank makes payments 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 maximum exposure to on- and off-books credit risk exposures (net of allowance for impairment losses) of the Bank. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements (in thousands).

	2009	2008 (As Restated - see Note 38)
Cash and other cash items (COCI) (excluding cash on hand)	P23,352	P8,841
Due from BSP	8,503,132	6,993,152
Due from other banks	1,651,638	863,885
Interbank loans receivables and SPURA	13,354,879	5,943,512
	23,533,001	P13,809,390
Financial assets at FVPL:		
Derivative assets	422,056	173,313
Government debt securities held for trading	427,245	36,217
Private debt securities held for trading	189,833	-
	1,039,134	209,530
AFS securities:		
Quoted government debt securities	P4,854,301	P1,414,070
Quoted other debt securities	2,504,826	509,975
Unquoted other debt securities	7,221,969	7,884,376
Quoted equity securities	-	241,629
Unquoted equity securities	338,296	168,704
	14,919,392	10,218,754
HTM investments:		
Quoted government debt securities	8,896,151	10,896,646
Quoted other debt securities	1,923,951	487,678
	10,820,102	11,384,324
Loans and receivables:		
Receivables from customers:		
Direct advances	12,058,778	15,362,070
Term loans	14,264,177	11,593,734
Agri-agra loans	3,937,909	6,336,177
Bills purchased, import bills and trust receipts	2,577,530	2,971,409
Others	947,737	230,770
	33,786,131	36,494,160
Less unearned interest	1,415,795	228,484
	32,370,336	36,265,676
Structured notes	694,304	3,674,061
Unquoted debt securities	4,788,934	3,931,027
Accrued interest receivable	1,147,218	1,600,588
Sales contract receivable	1,938,694	1,539,709
Accounts receivable	979,010	226,743
Returned checks and other check items (RCOCI)	177,401	80,680
	P42,095,897	P47,318,484

Collateral and Other Credit Enhancements

	Note		
On-books accounts		P92,407,526	P82,940,482
Commitments	31	1,328,182	12,848,445
Contingent liabilities	31	14,252,923	10,351,443
		15,581,105	23,199,888
Less contingent assets		10,710,389	7,846,639
Off-books accounts		4,870,716	15,353,249
Total credit risk exposure		P87,536,810	P67,587,233

The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counter-party. 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.

Credit Quality Per Class of Financial Assets
The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of assets for loans and receivables (gross of allowance for impairment losses and unearned interest) based on the Bank's credit rating (in thousands).

	December 31, 2009				
	Neither Past Due nor Individually Impaired				
	High Grade	Standard Grade	Unrated	Past Due or Impaired	Total
Receivable from customers:					
Direct advances	P7,660,984	P 2,575,544	P2,537,297	P1,853,653	P14,627,478
Term loans	2,404,063	1,825,687	1,718,876	8,678,220	14,626,846
Agri-agra	-	-	2,236,853	2,779,540	5,016,393
Bills purchased, import bills, trust receipts	-	-	2,577,530	-	2,577,530
Others	67,607	59,079	816,787	4,264	947,737
	10,132,654	4,460,310	9,887,343	13,315,677	37,795,984
Unquoted debt securities	-	694,304	4,277,279	37,351	5,008,934
Structured notes	694,304	-	-	-	694,304
Accrued interest receivable	-	-	1,221,697	-	1,221,697
Sales contract receivable	-	-	1,693,228	245,466	1,938,694
Accounts receivable	-	-	979,010	-	979,010
RCOCI	-	-	177,401	-	177,401
	P10,826,958	P5,154,614	P18,235,958	P13,598,494	P47,816,024

	December 31, 2008 (As Restated)				
	Neither Past Due nor Individually Impaired				
	High Grade	Standard Grade	Unrated	Past Due or Impaired	Total
Receivable from customers:					
Direct advances	P9,159,285	P4,517,201	P1,647,500	P743,707	P16,067,693
Term loans	3,230,264	6,727,300	302,235	2,033,935	12,293,734
Agri-agra	4,078,855	3,032,475	115,963	104,486	7,331,779
Bills purchased, import bills, trust receipts	1,925,242	966,651	25,170	210,570	3,127,633
Others	66,605	45,788	134,823	120,560	367,776
	18,460,251	15,289,415	2,225,691	3,213,258	39,188,615
Structured notes	3,674,061	-	-	-	3,674,061
Unquoted debt securities	-	-	3,933,402	-	3,933,402
Accrued interest receivable	-	-	1,727,098	-	1,727,098
Sales contract receivable	-	-	1,332,041	227,885	1,559,926
Accounts receivable	-	-	943,663	-	943,663
RCOCI	-	-	80,680	-	80,680
	P22,134,312	P15,289,415	P10,242,575	P3,441,143	P51,107,445

Borrower Risk Rating Disclosure
In compliance with the BSP, the Bank implemented in 2007 a credit risk classification that is compliant with global rating standards. The Borrower Risk Rating (BRR) is the evaluation of the creditworthiness of an existing or prospective borrower, with an asset size of P15.0 million and above (exclusive of the land used for operations). In 2008,

the Bank has expanded its credit risk classification by implementing the BRR for asset size of below P15.0 million (exclusive of the land used for operations). The account is evaluated independent of any influence from any transactional factors.

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:

	Calculated BRR	Equivalent Risk Rating
High Grade	1	Excellent
	2	Strong
	3	Good
Standard Grade	4	Satisfactory
	5	Acceptable
	6	Watchlist
Substandard Grade	7	Special Mention
Impaired	8	Substandard
	9	Doubtful
	10	Loss

High Grade or the accounts with BRR rating of 1-3 are the loans where the risk of the Bank are good to excellent in terms of risk quality and where the likelihood of 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 statement 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 nor 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 three years, no history of payment default in the last twelve 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 Bank has a great chance to overcome them and recent departure of key employees or lack of key management experience.

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
Automatically rated as Watchlist are start up companies. Accounts classified will follow existing guidelines set forth by BSP Circular 247, Guidelines in the Classification of Loans and the Provisioning Requirements for Classified Loan Accounts.

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 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.

Doubtful - BRR 9
These are loans 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.

Loss - BRR 10
These are loans 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.

For financial assets such as balances due from other banks, financial assets at FVPL and AFS securities, the credit quality is assessed using external credit rating (such as Standard and Poors, Fitch, Moody's, etc.) of the respective counterparties, as follows:

	December 31, 2009		
	AA - A	Below BBB or Unrated	Total
Due from BSP	P -	P8,503,131,565	P8,503,131,565
Due from other banks	-	1,651,638,376	1,651,638,376
Interbank loans receivable and securities purchased under resale agreements	2,314,879,107	11,040,000,000	13,354,879,107
	2,314,879,107	21,194,769,941	23,509,649,048
Financial assets at FVPL:			
Derivative assets*	210,414,893	211,641,513	422,056,406
Government debt securities held for trading	427,244,491	-	427,244,491
Other debt securities	142,093,368	47,739,985	189,833,353
	779,752,752	259,381,498	1,039,134,250
AFS securities:			
Quoted government debt securities	4,854,301,249	-	4,854,301,249
Quoted other debt securities	1,634,301,154	870,524,926	2,504,826,080
Unquoted other debt securities	7,221,969,387	-	7,221,969,387
Quoted equity securities	-	-	-
Unquoted equity securities	-	338,295,372	338,295,372
	13,710,571,790	1,208,820,298	14,919,392,088
HTM investments:			
Quoted government debt securities	-	8,896,150,830	8,896,150,830
Quoted other debt securities	1,456,343,855	467,607,542	1,923,951,397
	1,456,343,855	9,363,758,372	10,820,102,227
Loans and receivables:			
Structured notes	694,304,254	-	694,304,254
Unquoted debt securities	-	5,008,933,841	5,008,933,841
	694,304,254	5,008,933,841	5,703,238,095
Total	P18,955,851,758	P37,035,663,950	P55,991,515,708

** Unrated derivatives pertain to warrants, swaps and forwards*

	December 31, 2008 (As Restated)		
	AA - A	Below BBB or Unrated	Total
Due from BSP	P -	P6,993,152,154	P6,993,152,154
Due from other banks	-	863,884,580	863,884,580
Interbank loans receivable and securities purchased under resale agreements	3,993,512,365	1,950,000,000	5,943,512,365
	3,993,512,365	9,807,036,734	13,800,549,099
Financial assets at FVPL:			
Derivative assets*	-	173,312,657	173,312,657
Government debt securities held for trading	-	36,217,545	36,217,545
	-	209,530,202	209,530,202
AFS securities:			
Quoted government debt securities	1,414,069,937	-	1,414,069,937
Quoted other debt securities	-	509,975,105	509,975,105
Unquoted other debt securities	7,088,061,056	796,314,857	7,884,375,913
Quoted equity securities	-	241,628,528	241,628,528
Unquoted equity securities	-	168,704,260	168,704,260
	8,502,130,993	1,716,622,750	10,218,753,743
HTM investments:			
Quoted government debt securities	-	10,896,645,995	10,896,645,995
Quoted other debt securities	-	487,678,048	487,678,048
	-	11,384,324,043	11,384,324,043
Loans and receivables:			
Structured notes	-	3,674,060,534	3,674,060,534
Unquoted debt securities	-	3,933,401,514	3,933,401,514
	-	7,607,462,048	7,607,462,048
Total	P12,495,643,358	P30,724,975,777	P43,220,619,135

** Unrated derivatives pertain to warrants, swaps and forwards.*

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

	2009	2008
Term loans	P2,699,427,589	P2,975,562,890
Agri-agra loans	639,306,365	433,938,612
Direct advances	293,164,311	400,199,500
Others	7,592,184	-
	P3,639,490,449	P3,809,701,002

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, 2009				
	1-30 days	31-60 days	61-90 days	More than 90 days	Total
Receivable from customers:					
Direct advances	P53,374,507	P12,514,628	P3,954,645	P938,922,466	P1,008,766,246
Term loans	18,206,257	79,394,988	98,951,252	1,017,103,345	1,213,655,842
Agri-agra	-	47,940,710	-	495,348,434	543,289,144
Bills purchased, inward bills and trust receipts	2,176,109	-	3,454,919	230,982,492	236,613,520
Others	49,895,673	21,816,273	13,154,078	47,528,982	132,395,006
Sales contract receivable	64,674	16,747	485,704	244,898,937	245,466,062
	P123,717,220	P161,683,346	P120,000,598	P2,974,784,656	P3,380,185,820

	December 31, 2008				
	1-30 days	31-60 days	61-90 days	More than 90 days	Total
Receivable from customers:					
Direct advances	P47,542,245	P44,598,638	P12,355,296	P185,341,006	P289,837,185
Term loans	69,135,802	23,462,407	46,928,720	323,575,999	463,102,928
Agri-agra	-	-	-	55,543,965	55,543,965
Bills purchased, inward bills and trust receipts	847,750	1,453,756	783,971	206,343,741	209,429,218
Sales contract receivable	3,275,212	19,804,598	4,983,768	-	28,063,578
	P120,801,009	P89,319,399	P65,051,755	P770,804,711	P1,045,976,874

Based on the top 20 past due loans as of December 31, 2009 and 2008, the Bank has secured loans of P2.4 billion and P0.9 billion, respectively, which are collateralized by either real estate mortgage or chattel mortgage with total fair market value of P3.1 billion and P1.4 billion, respectively.

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 two areas: individually assessed allowances and collectively assessed allowances.

a. Individually Assessed Allowance
   If there is objective evidence that the Bank will not be able to collect all amounts due on the loan according to the original agreement or its equivalent value, an allowance for impairment losses is recognized. The amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the account of loss is charged against profit or loss.

   The present value of the estimated cash flows is discounted at the financial asset's original effective interest rate. If the loan has a variable interest rate, the calculation of the impairment loss uses the discount rate of the current effective interest rate adjusted for the original credit risk premium. If the loan is collateralized, the calculation of the present value of the estimated cash flow reflects the cash flows that may result from the foreclosure less the cost of obtaining and selling the collateral, whether or not the foreclosure is possible.

   Should there be a reduction in the estimated impairment loss after the impairment is recognized, the previously recognized loss is reduced by adjusting the allowance account.

   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.

b. Collectively Assessed Allowance
   For individually or collectively assessed loans and receivables where there is no objective evidence of impairment and are not individually significant, these are subjected to collective impairment assessment. For the purpose of collective evaluation of impairment loans, loans and receivables in the Bank's loan portfolio are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the BSP's grading process that considers type, industry, past-due status and other relevant factors).

   Loan accounts subjected to collective impairment include domestic loans, sales contracts receivable, trust receipts, customers liability acceptance, customers liability import bills and export bills.

   The credit loss rate, credit loss amount and impairment loss rate are then obtained after grouping the accounts based on similar credit characteristics.

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 manages its liquidity risk by keeping a diversified deposit and asset mix. 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 of 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 (MCO) limit. This process measures and estimates projected funding requirements that the Bank will need at specific time periods.

Analysis of Financial Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as of December 31, 2009 and 2008 based on contractual undiscounted repayment obligations. The maturity profile of assets and liabilities of the Bank based on the expected maturities of these liabilities are disclosed in Note 21 to the financial statements. Repayments which are subject to notice are treated as if notice were to be given immediately (in millions).

	December 31, 2009					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Deposit liabilities:						
Demand	P11,499	P -	P -	P -	P -	P11,499
Savings	7,233	40,318	135	-	-	47,686
Time	-	19,113	6,980	1,538	-	27,631
Bills payable and SSURA	995	38	40	2	1,786	2,861
Manager's check and acceptances payable	306	52	6	-	-	364
Accrued interest and other expenses	617	-	-	-	-	617
Subordinated debt	-	-	-	1,195	300	1,495
Other liabilities	1,125	-	-	-	-	1,125
	21,775	59,521	7,161	2,735	2,086	93,278
Financial liabilities at FVPL (Note 8)	-	-	-	-	1,352	1,352
Total undiscounted financial liabilities	P21,775	P59,521	P7,161	P2,735	P3,438	P94,630

	December 31, 2008 (As Restated)					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Deposit liabilities:						
Demand	P8,267	P -	P -	P -	P -	P8,267
Savings	6,031	40,063	228	18	-	46,340
Time	-	18,053	2,368	2,848	-	23,269
Bills payable and securities sold						
under repurchase agreements (SSURA)	-	4,960	40	12	1,448	6,460
Manager's check and acceptances payable	140	-	95	-	-	235
Accrued interest and other expenses	647	-	-	-	-	647
Subordinated debt	-	-	-	1,190	300	1,490
Other liabilities	1,148	-	-	-	-	1,148
	16,233	63,076	2,731	4,068	1,748	87,856
Financial liabilities at FVPL (Note 8)	-	-	-	-	1,950	1,950
Total undiscounted financial liabilities	P16,233	P63,076	P2,731	P4,068	P3,698	P89,806

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

	December 31, 2009				
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Commitments	P307,725	P1,020,457	P -	P -	P1,328,182
Contingent liabilities	14,252,922	-	-	-	14,252,922
Total	P14,560,647	P1,020,457	P -	P -	P15,581,104

	December 31, 2008				
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Commitments	P10,914,750	P1,076,003	P783,585	P74,107	P12,848,445
Contingent liabilities	2,384,088	7,916,202	51,153	-	10,351,443
Total	P13,298,838	P8,992,205	P834,738	P74,107	P23,199,888

The following tables set forth the asset-liability gap position of the Bank as of December 31, 2009 and 2008 (in millions):

	December 31, 2009					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Greater than 1 year	Total
Financial Assets						
COCI	P863	P -	P -	P -	P -	P863
Due from BSP	6,553	1,950	-	-	-	8,503
Due from other banks	1,652	-	-	-	-	1,652
Interbank loans receivables						
and securities purchased under resale agreements	12,824	531	-	-	-	13,355
Financial assets at FVPL						
Derivative assets	108	27	-	77	-	212
Government debt securities held for trading	-	-	-	347	455	802
Other debt securities	-	-	-	-	-	-
AFS securities- gross					25	25
Quoted government debt securities	-	-	-	-	4,854	4,854
Quoted other debt securities	-	-	-	-	2,965	2,965
Unquoted other debt securities	-	-	-	-	7,222	7,222
Quoted equity securities	-	-	-	-	-	-
Unquoted equity securities	-	-	-	-	388	388
HTM investments						
Government debt securities	-	-	-	-	8,896	8,896
Quoted other debt securities	-	-	-	-	1,924	1,924
Loans and receivables - gross						
Receivable from customers						
Direct advances	3,848	4,204	3,757	1,155	1,663	14,627
Term loans	557	21	1,355	32	12,662	14,627
Agri-agra	1,097	-	2,590	357	972	5,016
Bills purchased, import bills and trust receipts	2,260	35	13	166	104	2,578
Others	37	44	6	28	833	948
Structured notes	462	46	-	-	186	694
Unquoted debt securities	-	-	108	307	4,594	5,009
Accrued interest receivable	1,222	-	-	-	1,900	1,222
Sales contract receivable	17	17	3	2	-	1,939
Accounts receivable	979	-	-	-	-	979
RCOCI	177	-	-	-	-	177
Total loans and receivable	10,656	4,367	7,832	2,047	22,914	47,816
Total	32,656	6,875	7,832	2,471	49,643	99,477
Financial Liabilities						
Deposit liabilities						
Demand	11,499	-	-	-	-	11,499
Savings	42,081	5,452	102	51	-	47,686
Time	13,409	5,705	3,117	3,863	1,537	27,631
Bills payable and SSURA	995	38	31	9	1,788	2,861
Manager's checks and acceptances payable	306	52	6	-	-	364
Accrued interest and other expenses	617	-	-	-	-	617
Subordinated debt	-	-	-	-	1,495	1,495
Financial liabilities at FVPL	-	-	-	-	1,352	1,352
Other liabilities	1,125	-	-	-	-	1,125
Total	70,032	11,247	3,256	3,923	6,172	94,630
Asset-liability gap	(P37,376)	(P4,372)	P4,576	(P1,452)	P43,471	P4,847

	December 31, 2008 (As Restated - see Note 38)					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	Greater than 1 year	Total
Financial Assets						
COCI	P888	P -	P -	P -	P -	P888
Due from BSP	6,993	-	-	-	-	6,993
Due from other banks	864	-	-	-	-	864
Interbank loans receivables and SPURA	5,944	-	-	-	-	5,944
Financial assets at FVPL						
Derivative assets	-	36	-	-	137	173
Government debt securities held for trading	-	35	-	-	1	36
AFS securities- gross	-	-	-	-		
Quoted government debt securities	-	-	-	-	1,414	1,414
Quoted other debt securities	-	-	-	-	997	997
Unquoted other debt securities	-	-	-	-	7,885	7,885
Quoted equity securities	-	-	-	-	242	242
Unquoted equity securities	-	-	-	-	168	168
HTM investments						
Government debt securities	-	53	-	-	10,844	10,897
Quoted other debt securities	-	-	-	-	487	487
Loans and receivables - gross	-	-	-	-	-	-
Receivable from customers	-	-	-	-	-	-
Direct advances	2,629	5,569	4,552	2,280	1,038	16,068
Term loans	14	849	318	946	10,167	12,294
Agri-agra	1,098	598	2,214	431	2,991	7,332
Bills purchased, import bills and trust receipts	2,709	73	89	8	249	3,128
Others	87	-	92	13	176	368
Structured notes	-	-	-	-	3,674	3,674
Unquoted debt securities	-	-	-	-	3,931	3,931
Accrued interest receivable	1,601	-	-	-	-	1,601
Sales contract receivable	-	45	52	121	1,342	1,560
Accounts receivable	227	-	-	-	717	944
RCOCI	81	-	-	-	-	81
Total loans and receivable	8,446	7,134	7,317	3,799	24,285	50,981
Total	23,135	7,258	7,317	3,799	46,460	87,969
Financial Liabilities						
Deposit liabilities						
Demand	8,267	-	-	-	-	8,267
Savings	6,031	40,063	155	73	18	46,340
Time	-	19,107	1,094	1,207	1,861	23,269
Bills payable and SSURA	-	4,928	41	9	1,482	6,460
Manager's checks and acceptances payable	140	-	95	-	-	235
Accrued interest and other expenses	647	-	-	-	-	647
Subordinated debt	-	-	-	-	1,490	1,490
Financial liabilities at FVPL	-	3	-	-	1,947	1,950
Other liabilities	1,491	-	-	-	-	1,491
Total	16,576	64,101	1,385	1,289	6,798	90,149
Asset-liability gap	P6,559	(P56,843)	P5,932	P2,510	P39,662	(P2,180)

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.

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 with regard to tenor credit standing. Net Interest Revenue (NIR) 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).

NIR 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 CRAMPS Analysis which stands for Cash, Relationship, Administration, Market, Production and Security.

The following tables provide for the average EIRs by period of maturity or repricing of the Bank's interest-bearing financial assets and liabilities as of December 31, 2009 and 2008:

	December 31, 2009		
	Less than 3 months	3 months to 1 year	Greater than 1 year
Financial Assets			
Due from BSP	3.2	-	-
Due from other banks	0.9		
Interbank loans receivables and SPURA	0.5	-	-
Financial assets at FVPL			
Government debt securities held for trading	3.9	4.4	6.3
Other debt securities	-	-	5.8
AFS securities			
Quoted government debt securities	-	-	4.8
Quoted other debt securities	-	-	2.5
Unquoted other debt securities	-	-	7.5
HTM investments			
Quoted government debt securities	-	-	6.9
Quoted other debt securities	7.6	-	2.2
Loans and receivables			
Receivable from customers	-	10.35	9.89
Structured notes	4.5		1.5
Unquoted debt securities	2.4	6.1	3.1
Sales contract receivable	11.0	10.0	10.4
Financial Liabilities			
Deposit liabilities			
Demand	0.48	-	-
Savings	3.06	3.63	-
Time	2.37	4.93	6.56
Bills payable and SSURA	5.5	7.0	9.4
Subordinated debt	-	12.2	8.6

	December 31, 2008		
	Less than 3 months	3 months to 1 year	Greater than 1 year
Financial Assets			
Due from BSP	4.6	-	-
Due from other banks	1.0	-	-
Interbank loans receivables and SPURA	0.9	-	-
Financial assets at FVPL			
Government debt securities held for trading	6.2	6.8	7.5
AFS securities			
Quoted government debt securities	6.2	-	7.3
Quoted other debt securities	-	-	6.9
Unquoted other debt securities	-	-	0.0
HTM investments			
Quoted government debt securities	-	-	7.2
Quoted other debt securities	-	-	4.9
Loans and receivables			
Receivable from customers	10.8	10.7	6.9
Structured notes	-	-	8.2
Unquoted debt securities	4.6	6.7	3.9
Sales contract receivable	-	10.7	10.7
Financial Liabilities			
Deposit liabilities			
Demand	0.6	-	-
Savings	5.7	6.5	-
Time	4.0	4.6	8.1
Bills payable and SSURA	6.7	6.6	10.0
Subordinated debt	-	-	10.4

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's results of operations and other comprehensive income.

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 period based on the floating rate of financial assets and financial liabilities held as of December 31, 2009 and 2008. The sensitivity of other comprehensive income is calculated by revaluing fixed-rate AFS securities as of December 31, 2009 and 2008. The total sensitivity of other comprehensive income 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.

	December 31, 2009		
	Changes in interest rates (in basic points)	Sensitivity of net interest income (in millions)	Sensitivity of other comprehensive income (in millions)
PHP	+10	32	32
USD	+07	7	(14)
PHP	-10	(32)	(32)
USD	-07	(7)	14

	December 31, 2008		
	Changes in interest rates (in basic points)	Sensitivity of net interest income (in millions)	Sensitivity of other comprehensive income (in millions)
PHP	+14	P55	P2
USD	+23	9	(27)
PHP	-14	(55)	(2)
USD	-23	(9)	27

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 FCDU with foreign currency assets. In addition, BSP requires a 30% 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 of December 31, 2009 and 2008. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency (based on US dollar equivalents in thousands).

	December 31, 2009			
	USD	Euro	Others	Total
Assets				
Due from other banks	$53,395	$701	$1,025	$55,121
Interbank loans receivable				
and securities purchased under resale agreements	25,008	8,460	867,815	901,283
Financial assets at FVPL	5,185	-	-	5,185
AFS securities	290,082	-	143	290,225
HTM investments	219,766	-	-	219,766
Loans and receivables	70,086	-	-	70,086
Total assets	663,522	9,161	868,983	1,541,666
Liabilities				
Deposit liabilities	481,547	819	-	482,366
Bills payable and SSURA	4,501	-	-	4,501
Accrued interest, taxes and other expenses	1,180	-	-	1,180
Financial liabilities at FVPL	29,262	-	-	29,262
Other liabilities	151,586	-	-	151,586
Total liabilities	668,076	819	-	668,895
Net Exposure	($4,554)	$8,342	$868,983	$872,771

	December 31, 2008 (As Restated, see Note 38)			
	USD	Euro	Others	Total
Assets				
Due from other banks	$2,680	$392	$510	$3,582
Interbank loans receivable				
and securities purchased under resale agreements	2,173	-	-	2,173
Financial assets at FVPL	3,110	-	-	3,110
AFS securities	165,116	-	137	165,253
HTM investments	57,688	-	-	57,688
Loans and receivables	67,341	-	-	67,341
Total assets	298,108	392	647	299,147
Liabilities				
Deposit liabilities	-	317	-	317
Bills payable and SSURA	42,518	-	-	42,518
Accrued interest, taxes and other expenses	2,052	-	-	2,052
Financial liabilities at FVPL	41,991	-	-	41,991
Other liabilities	1,118	-	-	1,118
Total liabilities	87,679	317	-	87,996
Net Exposure	$210,429	$75	$647	$211,151

The table below indicates the currencies which the Bank has significant exposure to at December 31, 2009 and 2008 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 Philippine peso, with all other variables held constant on the results of operations (due to the fair value of currency sensitive monetary assets and liabilities) and other comprehensive income. A negative amount in the table reflects a potential net reduction of net income or other comprehensive income while a 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, 2009				
Currency				
USD	P1.00	P210.19	(P1.00)	(P210.19)
Euro	(0.50)	(0.19)	0.50	0.19
Others	0.40	14.33	(0.40)	(14.33)
December 31, 2008				
Currency				
USD	P1.00	P22.99	(P1.00)	(P22.99)
Euro	0.50	0.20	(0.50)	(0.20)
Others	0.40	0.15	(0.40)	(0.15)

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

6. Categories and Fair Value Measurement of Financial Instruments

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

COCI - Fair values approximate carrying amounts.

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

Investments in Quoted Debt and Equity Securities - Fair values are generally 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, estimates provided by counterparties or using the discounted cash flow methodology.

Investments in Unquoted Equity Securities - These are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of other suitable methods of arriving at a reliable measure of fair value.

Loans and Receivables - Loans and receivables are carried net of allowance for credit impairment losses. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted using current market rates to determine fair value.

Deposit Liabilities - The estimated fair values of deposit liabilities which include noninterest-bearing deposits is the amount repayable on demand.

Bills and Acceptances Payables and Subordinated Debt - Fair values are computed using the discounted cash flows method except for the fair values of short-term liabilities which approximate their carrying values considering their short-term nature.

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.

Set out below is a comparison by category of carrying amounts and fair values of financial assets and financial liabilities as of December 31, 2009 and 2008 (in thousands):

	December 31, 2009		December 31, 2008 (As Restated - see Note 38)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL:				
Government debt securities held for trading	P427,245	P427,245	P36,217	P36,217
Other debt securities	189,833	189,833	-	-
Derivative assets	422,056	422,056	173,313	173,313
	1,039,134	1,039,134	209,530	209,530
AFS securities:				
Quoted government debt securities	4,854,301	4,854,301	1,414,070	1,414,070
Quoted other debt securities	2,504,826	2,504,826	509,975	509,975
Unquoted other debt securities	7,221,969	7,221,969	7,884,376	7,884,376
Quoted equity securities	-	-	241,629	241,629
Unquoted equity securities	338,296	338,296	168,704	168,704
	14,919,392	14,919,392	10,218,754	10,218,754
HTM investments:				
Quoted government debt securities	8,896,151	12,039,329	10,896,646	13,501,453
Quoted other debt securities	1,923,951	1,923,951	487,678	451,440
	10,820,102	13,963,280	11,384,324	13,952,893
Loans and receivable				
COCI	862,601	862,601	887,542	887,542
Due from BSP and other banks	10,154,770	10,154,770	7,857,037	7,857,037
Interbank loans receivable and securities purchased under resale agreements	13,354,879	13,354,879	5,943,512	5,943,512
Receivable from customers				
Direct advances	12,058,778	12,058,778	15,362,070	15,362,070
Term loans	14,264,177	14,264,177	11,593,734	11,593,734
Agri-agra loans	3,937,909	3,937,909	6,336,177	6,345,898
Bills purchased, import bills and trust receipts	2,577,530	2,577,530	2,971,409	2,961,225
Others	947,737	947,737	230,770	187,603
	33,786,131	33,786,131	36,494,160	36,450,530
Less unearned interest	1,415,795	1,415,795	228,484	228,484
	32,370,336	32,370,336	36,265,676	36,222,046
Structured notes	694,304	694,304	3,674,061	2,054,435
Unquoted debt securities	4,788,934	4,788,934	3,931,027	4,025,240
Accrued interest receivable	1,147,218	1,147,218	1,600,588	1,600,588
Sales contract receivable	1,938,694	1,938,694	1,539,709	1,070,823
Accounts receivable	979,010	979,010	226,743	226,743
RCOCI	177,401	177,401	80,680	80,680
	42,095,897	42,095,897	47,318,484	45,280,555
	P93,246,775	P96,389,953	P83,819,183	P84,349,823

	December 31, 2009		December 31, 2008 (As Restated - see Note 38)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
Financial liabilities at FVPL	P1,351,925	P1,351,925	P1,950,165	P1,950,165
Financial liabilities at amortized cost				
Deposit liabilities				
Demand	11,499,045	11,499,045	8,266,602	8,266,602
Savings	47,685,734	47,685,734	46,340,069	46,340,069
Time	27,631,207	27,631,207	23,269,472	23,269,472
Bills payable and SSURA	2,861,031	2,861,031	6,459,638	5,757,211
Manager's check and acceptances				
Payable	364,243	364,243	234,608	234,608
Accrued interest and other expenses	616,565	616,565	646,743	646,743
Subordinated debt	1,495,145	1,495,145	1,490,344	678,996
Other liabilities	1,124,516	1,124,516	1,148,729	1,147,599
	93,277,486	93,277,486	87,856,205	86,341,300
	P94,629,411	P94,629,411	P89,806,370	P88,291,465

Fair Value Hierarchy

The following table presents an analysis of financial instruments carried at fair value, by valuation method or level. The different fair valuation levels are defined as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for instrument, 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).

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Financial Assets				
Financial assets at FVPL				
Government debt securities held for trading	P427,244	P -	P -	P427,244
Other debt securities	189,833	-	-	189,833
Derivative assets	-	422,056	-	422,056
AFS securities				
Quoted government debt securities	4,854,301	-	-	4,854,301
Quoted other debt securities	2,504,826	-	-	2,504,826
Quoted equity securities	-	-	-	-
Unquoted equity securities	-	-	338,296	338,296
Unquoted other debt securities	-	-	7,221,969	7,221,969
Financial Liabilities				
Financial liabilities at FVPL	-	-	1,351,925	1,351,925

	December 31, 2008			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Financial Assets				
Financial assets at FVPL				
Government debt securities held for trading	P36,218	P -	P -	P36,218
Derivative assets	-	173,313	-	173,313
AFS securities				
Quoted government debt securities	1,414,070	-	-	1,414,070
Quoted other debt securities	509,975	-	-	509,975
Quoted equity securities	241,629	-	-	241,629
Unquoted equity securities	-	-	168,704	168,704
Unquoted other debt securities	-	-	7,884,376	7,884,376
Financial Liabilities				
Financial liabilities at FVPL	-	-	1,950,165	1,950,165

7. Interbank Loans Receivable and SPURA

This account consists of:

	Note	2009	2008
Interbank loans receivables	*31*	P2,314,879,107	P3,993,512,365
SPURA		11,040,000,000	1,950,000,000
		P13,354,879,107	P5,943,512,365

Interest Income on Interbank Loans Receivable and SPURA

This account consists of interest income from:

	2009	2008
Interbank loans receivable	P23,426,631	P210,800,824
SPURA	234,346,667	62,898,048
	P257,773,298	P273,698,872

In 2009 and 2008, interbank loans receivable and SPURA bear interest rates ranging from 0.0025% to 3.2% and from 0.3% to 5.5%, respectively.

8. Financial Assets and Financial Liabilities at FVPL

Financial assets at FVPL consist of:

	2009	2008
Derivative assets	P422,056,406	P173,312,657
Government debt securities held for trading	427,244,491	36,217,545
Private debt securities held for trading	189,833,353	-
Total	P1,039,134,250	P209,530,202

As of December 31, 2009 and 2008, government debt securities are shown net of unrealized gains of P0.2 million and P0.1 million, respectively.

Derivative Financial Instruments
The table below shows the fair values of derivative financial instruments entered into by the Bank, recorded as a 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 of December 31, 2009 and 2008 and is not indicative of either market risk or credit risk.

	December 31, 2009			
	Derivative Assets	Derivative Liabilities	Notional Amount	Leverage Exposure
Freestanding derivatives:				
Cross currency swaps	P269,945,254	P -	$21,000,000	$ -
Currency swaps	152,111,152	-	150,000,000	-
	422,056,406	-	171,000,000	-
Embedded derivatives:				-
Credit default swaps	-	1,351,925,027	196,187,500	229,687,500
	P422,056,406	P1,351,925,027	$367,187,500	$229,687,500

	December 31, 2008 (As Restated)			
	Derivative Assets	Derivative Liabilities	Notional Amount	Leverage Exposure
Freestanding derivatives:				
Cross currency swaps	P136,904,143	P42,050,686	$31,000,000	$ -
Warrants	25,542,000	-	-	-
Currency swaps	10,866,514	2,489,370	67,995,075	229,687,500
	173,312,657	44,540,056	98,995,075	229,687,500
Embedded derivatives:				
Credit default swaps	-	1,905,624,989	196,187,500	229,687,500
	P173,312,657	P1,950,165,045	$295,182,575	$229,687,500

Please refer to Notes 36 and 38 to the financial statements for a discussion of the adjustments applied to restate the December 31, 2008 financial statement account balances.

9. Investment Securities

This account consists of (in thousands):

	December 31, 2009			December 31, 2008 (As Restated)		
	AFS Securities	HTM Investments	Total	AFS Securuities	HTM Investments	Total
Quoted investments						
Government debt securities	P4,854,301	P8,896,151	P13,750,452	P1,414,070	P10,896,646	P12,310,716
Other debt securities, net of impairment loss of P462.0 million in 2009 and P446.4 million in 2008	2,504,826	1,923,951	4,428,777	509,975	487,678	997,653
Equity securities	-	-	-	241,629	-	241,629
	7,359,127	10,820,102	18,179,229	2,165,674	11,384,324	13,549,998
Unquoted investments						
Debt securities	7,221,969	-	7,221,969	7,884,376	-	7,884,376
Equity securities, net of impairment loss of P50.0 million in 2009 and P40.9 million in 2008	338,296	-	338,296	168,704	-	168,704
	P14,919,392	P10,820,102	P25,739,494	P10,218,754	P11,384,324	P21,603,078

Please refer to Notes 36 and 38 to the financial statements for a discussion of the adjustments applied to the December 31, 2008 financial statement account balances.

As of December 31, 2009 and 2008, AFS securities include debt and equity securities which may be doubtful of collection or realization. The Bank has not recognized allowance for impairment losses on these securities amounting to P524.6 million and P409.2 million as of December 31, 2009 and 2008, respectively (see Note 15).

AFS Equity Securities
Unquoted AFS equity securities include the Bank's 12.0% 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).

In 2009 and 2008, dividend income (included under "Miscellaneous income" account in the statement of operations) received from AFS equity securities amounted to P0.6 million and P5.5 million, respectively.

HTM Investments
As of December 31, 2009 and 2008, HTM investments include government debt securities with a face value of P1.8 billion which the Bank acquired using the proceeds from a loan extended by PDIC pursuant to the FAA discussed in Note 34 to the financial statements. These government debt securities are pledged as collateral for the said loan from the PDIC, which is classified under bills payable (see Note 17).

In 2007, BSP issued Circular 558 dated January 22, 2007 which allowed banks to reclassify their investments in foreign currency-denominated National Government (NG)/BSP bonds/debt securities classified under the HTM category in view of the increased risk weights of said securities under Circular 538 dated August 4, 2006. Under Circular 558, the reclassification of the above securities from the HTM category is exempted from the "tainting" rule provision under Circular 476 dated February 16, 2005. On March 7, 2007, the Bank availed of the exemption provided by Circular 558 and reclassified foreign currency-denominated government debt securities amounting to P111.8 million from HTM to AFS.

10. Loans and Receivables

This account consists of:

	Note	2009	2008 (As Restated)
Receivables from customers:			
Direct advances		P14,627,477,618	P16,067,692,635
Term loans		14,626,845,652	12,293,733,654
Agri-agra loans		5,016,393,011	7,331,779,485
Bills purchased, import bills and trust receipts		2,577,529,739	3,127,632,612
Others		947,737,340	367,778,427
		37,795,983,360	39,188,616,813
Unearned interest income		(1,415,795,100)	(228,484,174)
		36,380,188,260	38,960,132,639
Structured notes	37	694,304,254	3,674,060,534
Unquoted debt securities		5,008,933,841	3,933,401,514
Accrued interest receivable		1,221,697,123	1,727,097,641
Sales contracts receivable		1,938,694,402	1,559,925,877
Accounts receivable		979,009,703	943,663,265
Returned checks and other check items		177,401,260	80,679,908
		46,400,228,843	50,878,961,378
Less allowance for impairment and credit losses	15	4,304,332,136	3,560,477,423
		P42,095,896,707	P47,318,483,955

Please refer to Notes 36 and 38 to the financial statements for a discussion of the adjustments applied to the December 31, 2008 financial statements account balances.

Accounts Receivable

This account includes a receivable from BSP amounting to P56.7 million, representing a claim by the Bank on the mandatory swap rollovers implemented following the 1983 foreign debt moratorium which has been the subject of numerous requests for payment in the past. A full allowance for credit losses should have been provided on this account considering the low prospects for recovery. The Bank, however, did not recognize the required allowance for impairment and credit losses (see Note 15).

Regulatory Reporting

As of December 31, 2009 and 2008, the breakdown of receivables from customers as to collateral is as follows (amounts in thousands):

	2009		2008	
	Amount	%	Amount	%
Loans secured by:				
Real estate	P10,580,793	28.0	P9,343,061	23.8
Chattel	1,260,957	3.3	5,765,071	14.7
Deposit hold-out	1,321,496	3.5	2,090,356	5.3
Others	9,193,317	24.3	8,725,228	22.3
	22,356,563	59.2	25,923,716	66.1
Unsecured	15,439,420	40.8	13,264,901	33.9
	P37,795,983	100.0	P39,188,617	100.0

As of December 31, 2009 and 2008, information on the concentration of credit as to industry follows (amounts in thousands):

	2009		2008	
	Amount	%	Amount	%
Agriculture	P9,677,204	25.6	P3,078,509	7.9
Wholesale and retail trade	5,687,048	15.0	6,172,979	15.8
Manufacturing (various industries)	4,778,940	12.6	7,529,415	19.2
Financial intermediaries	2,784,491	7.4	6,839,124	17.5
Real estate, renting and business services	3,093,334	8.2	6,338,358	16.2
Other community, social and personal activities	3,304,917	8.7	3,006,932	7.7
Transportation, storage and communications	1,905,507	5.0	2,269,587	5.8
Construction	1,537,107	4.1	1,786,834	4.6
Others	5,027,435	13.3	2,166,879	5.5
	P37,795,983	100.0	P39,188,617	100.0

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.

Current banking regulations allow banks with no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those receivables classified as "Loss" in the latest BSP Report of Examination (ROE), which are fully covered by allowance for impairment and credit losses, provided that interest on the said receivables shall not be accrued. Based on the BSP ROE dated February 28, 2009 and October 31, 2007, details on the Bank's NPLs are as follows (in thousands):

	2009	2008
Total NPLs	P3,232,745	P2,434,749
Less NPLs fully covered by allowance for credit losses	628,142	628,142
	P2,604,603	P1,806,607

Generally, NPLs refer to loans whose principal and/or interest remain unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming. In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (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 ten percent (10.0%) of the total receivable balance.

As of December 31, 2009 and 2008, restructured loans amounted to P3.6 billion and P3.8 billion, respectively. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs. As of December 31, 2009 and 2008, restructured receivables from customers considered as NPLs amounted to P397.3 million and P810.7 million, respectively.

As of December 31, 2009 and 2008, the Bank's loan portfolio includes non-risk loans totaling P1.3 billion and P2.1 billion, respectively.

Interest Income on Loans and Receivables

This account consists of:

	2009	2008
Receivable from customers:		
Direct advances	P1,429,554,885	P1,479,334,242
Term loans	1,140,563,117	1,283,915,700
Agri-agra loans	1,125,004,026	903,805,612
Bills payable, import bills and trust receipts	327,942,974	266,101,865
Others	132,800,567	17,378,621
	4,155,865,569	3,950,536,040
Unquoted debt securities and structured notes	556,124,985	245,956,583
Sales contract receivable	145,618,356	139,815,894
	P4,857,608,910	P4,336,308,517

As of December 31, 2009 and 2008, 65.34% and 75.1%, respectively, of the total receivables from customers were subject to periodic interest repricing, respectively. Remaining peso-denominated loans earn annual fixed interest rates ranging from 3% to 18% in 2009 and from 3.0% to 18.2% in 2008.

Unquoted debt instruments bear fixed interest rates per annum ranging from 0.5% to 11.2% in 2009 and from 0.1% to 12.0% in 2008.

Sales contract receivables bear fixed interest rates ranging from 10.0% to 19.0% in 2009 and 2008.

11. Investment in an Associate

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

	2009	2008
Acquisition cost (24.25%-owned)	P71,740,650	P71,740,650
Accumulated equity in net income (loss)		
Balance at beginning of year	(1,452,692)	2,044,418
Share in net loss for the year	(3,583,655)	(3,497,110)
Balance at end of year	(5,036,347)	(1,452,692)
	P66,704,303	P70,287,958

The following table shows the summarized financial information of the Bank's equity investment in BIC:

	2009	2008
Associate's statements of financial position:		
Assets	P268,624,120	P282,801,491
Liabilities	692,170	3,304,217
Net Assets	267,931,950	279,497,274
Associate's statements of income		
Revenues	6,556,975	211,542
Net loss for the year	(14,777,958)	(14,421,073)

The share in net loss of BIC is charged against "Miscellaneous income" account in the statement of operations.

Under BSP regulations, the use of the equity method of accounting for equity investments is allowable only where ownership is more than 50%. The use of the equity method of accounting for equity interest of 20% to 50% is made for financial reporting purposes to comply with the provisions of PAS 28.

12. Property and Equipment

The movements in property and equipment are as follows:

	December 31, 2009		
At Cost	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at January 1	P1,071,023,850	P330,146,770	P1,401,170,620
Additions	168,659,890	49,801,602	218,461,492
Disposals and others	(46,873,505)	-	(46,873,505)
Balance at December 31	1,192,810,235	379,948,372	1,572,758,607
Accumulated depreciation and amortization			
Balance at January 1	711,393,496	189,271,615	900,665,111
Depreciation and amortization	99,015,841	31,559,690	130,575,531
Disposals and others	(14,701,031)	-	(14,701,031)
Balance at December 31	795,708,306	220,831,305	1,016,539,611
Net book value at December 31	P397,101,929	P159,117,067	P556,218,996

		December 31, 2009		
At Appraised Values	*Note*	Land	Building	Total
Revalued amount				
Balance at January 1		P370,166,237	P832,032,739	P1,202,198,976
Additions		-	1,520,410	1,520,410
Balance at December 31		370,166,237	833,553,149	1,203,719,386
Accumulated depreciation				
Balance at January 1		-	330,469,294	330,469,294
Depreciation		-	41,707,215	41,707,215
Balance at December 31		-	372,176,509	372,176,509
Allowance for impairment losses	*15*	22,059,640	1,643,223	23,702,863
Net book value at December 31		P348,106,597	P459,733,417	P807,840,014

	December 31, 2008		
At Cost	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at January 1	P937,161,602	P299,945,882	P1,237,107,484
Additions	202,206,469	32,080,888	234,287,357
Disposals and others	(68,344,221)	(1,880,000)	(70,224,221)
Balance at December 31	1,071,023,850	330,146,770	1,401,170,620
Accumulated depreciation and amortization			
Balance at January 1	652,852,812	153,688,257	806,541,069
Depreciation and amortization	87,397,225	35,583,358	122,980,583
Disposals and others	(28,856,541)	-	(28,856,541)
Balance at December 31	711,393,496	189,271,615	900,665,111
Net book value at December 31	P359,630,354	P140,875,155	P500,505,509

		December 31, 2008		
At Appraised Values	Note	Land	Building	Total
Revalued amount				
Balance at January 1		P370,166,237	P819,248,937	P1,189,415,174
Additions		-	12,783,802	12,783,802
Balance at December 31		370,166,237	832,032,739	1,202,198,976
Accumulated depreciation				
Balance at January 1		-	288,234,593	288,234,593
Depreciation		-	42,234,701	42,234,701
Balance at December 31		-	330,469,294	330,469,294
Allowance for impairment losses	15	22,059,640	1,643,223	23,702,863
Net book value at December 31		P348,106,597	P499,920,222	P848,026,819

The Bank engaged various accredited independent appraisers to determine the fair value of its land and building. 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. Land and building were last appraised in 2008.

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

	December 31, 2009			December 31, 2008		
	Land	Building	Total	Land	Building	Total
Cost	P140,304,309	P585,892,149	P726,196,458	P140,304,309	P585,892,149	P726,196,458
Accumulated depreciation	-	(100,805,531)	(100,805,531)	-	(72,304,328)	(72,304,328)
	P140,304,309	P485,086,618	P625,390,927	P140,304,309	P513,587,821	P653,892,130

13. Investment Properties

The movements in investment properties are as follows:

		December 31, 2009		
	Note	Land	Building	Total
Cost				
Balance at January 1		P3,538,553,918	P1,151,974,197	P4,690,528,115
Additions		470,170,063	107,260,008	577,430,071
Disposals and others		(361,548,014)	(254,402,355)	(615,950,369)
Balance at December 31		3,647,175,967	1,004,831,850	4,652,007,817
Accumulated depreciation				
Balance at January 1		-	158,348,196	158,348,196
Depreciation		-	62,038,332	62,038,332
Disposals and others		-	(40,121,250)	(40,121,250)
Balance at December 31		-	180,265,278	180,265,278
Allowance for impairment losses	*15*	-	331,549,846	331,549,846
Net book value at December 31		P3,647,175,967	P493,016,726	P4,140,192,693

		December 31, 2008 (As Restated, see Note 38)		
	Note	Land	Building	Total
Cost				
Balance at January 1		P3,997,489,054	P862,367,691	P4,859,856,745
Additions		183,679,366	440,744,617	624,423,983
Disposals and others		(642,614,502)	(151,138,111)	(793,752,613)
Balance at December 31		3,538,553,918	1,151,974,197	4,690,528,115
Accumulated depreciation				
Balance at January 1		-	156,698,922	156,698,922
Depreciation		-	65,748,310	65,748,310
Disposals and others		-	(64,099,036)	(64,099,036)
Balance at December 31		-	158,348,196	158,348,196
Allowance for impairment losses	*15*	-	290,308,499	290,308,499
Net book value at December 31		P3,538,553,918	P703,317,502	P4,241,871,420

Please refer to Note 38 to the financial statements for a discussion of the adjustments applied to restate the December 31, 2008 financial statements account balances.

Certain properties included in this account had net recoverable amounts that are lower than their book values. The Bank has deferred the recognition of the required allowance for impairment losses on these properties amounting to P86.0 million and P108.0 million as of December 31, 2009 and 2008, respectively (see Note 15).

As of December 31, 2009 and 2008, the aggregate fair value of the Bank's investment properties amounted to P6.0 billion and P6.7 billion, respectively, or an increment of P1.8 billion and P2.5 billion over their net carrying value as of December 31, 2009 and 2008, respectively.

The fair values of the Bank's investment properties have been derived on the basis of recent sales of similar properties in the same areas as the investment properties taking into account the economic conditions prevailing at the time the valuations were made.

Gain on foreclosure or sale of foreclosed assets consists of the following:

	2009	2008 (As Restated)
Gain on assets sold	P157,950,789	P70,877,969
Gain (loss) on foreclosure	103,815,242	(15,910,171)
	P261,766,031	P54,967,798

On January 1, 2005, the Bank adopted PAS 40, *Investment Property*. This standard, the adoption of which required retrospective application, provides that investment properties be measured at cost, which is its fair value at initial recognition. The Bank applied PAS 40 to all of its investment properties except for those it acquired prior to January 1, 2004, which were recognized at the carrying outstanding balance of loan exposure of the borrowers in default.

In order to resolve the report qualification made by its predecessor auditors on the initial recognition of investment properties acquired prior to January 1, 2004, the Bank restated the relevant account balances and charged against unrestricted surplus the net unrecognized losses from initial recognition of the investment properties totaling P252.2 million as required under PAS 40 in the December 31, 2008 financial statements. Please refer to Note 38 to the financial statements for a discussion of the adjustments applied to restate the December 31, 2008 financial statements account balances.

As discussed in Notes 17 and 34 to the financial statements, the Bank entered into dacion en pago with mandatory buy-back agreement with the BSP. Under PFRS, the transaction is accounted for as a borrowing from the BSP collateralized by certain investment properties and property and equipment. As of December 31, 2009 and December 31, 2008, the outstanding liability to BSP amounted to P1.7 billion. The carrying value of investment properties and property and equipment used as collateral amounted to P1.3 million and P1.7 billion as of December 31, 2009 and 2008, respectively. The total appraised value of these properties amounted to P1.7 billion and P1.8 billion as of December 31, 2009 and 2008, respectively.

14. Other Assets

This account consists of:

	Note	2009	2008 (As Restated - see Note 38)
Deferred charges - loss on sale to an SPV		P1,924,629,922	P1,924,629,922
Deferred tax assets	*30*	715,402,689	481,838,461
Software costs - net		176,689,830	135,901,829
Goodwill		48,523,917	48,523,917
Miscellaneous assets		4,767,120,426	4,761,014,548
		7,632,366,784	7,351,908,677
Allowance for impairment losses	*15*	(1,748,131,000)	(1,419,015,000)
		P5,884,235,784	P5,932,893,677

Deferred Charges - Loss on Sale to SPV

This account represents the losses incurred by the Bank from the sale of its NPLs amounting to P432.1 million and P1.5 billion in 2007 and 2005, respectively. The NPLs were sold for cash to an SPV pursuant to RA No. 9182. In accordance with the regulations issued by the BSP for banks and financial institutions availing of the provisions of RA No. 9182, the Bank was allowed to defer and amortize the losses from the sale of NPLs over ten years as follows:

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 five consecutive taxable years immediately following the year of sale. Amortization of the losses charged against surplus amounted to P170.9 million and P120.2 million in 2009 and 2008, respectively

Goodwill

Goodwill represents the excess of the consideration over the fair value of the identifiable assets acquired less liabilities assumed of Panasia Banking, Inc., which the Bank acquired in 2000. The Bank has provided full allowance for impairment on this goodwill in 2007.

Software Costs

Movements in software costs are as follows:

	2009	2008
Cost		
Balance at January 1	P225,644,041	P182,893,085
Additions	76,763,189	91,126,266
Disposals	(36,373,647)	(48,375,310)
Balance at end of year	266,033,583	225,644,041
Accumulated amortization		
Balance at January 1	89,742,212	89,677,047
Amortization for the year	35,975,089	48,440,475
Disposals	(36,373,548)	(48,375,310)
Balance at end of year	89,343,753	89,742,212
Net book value	P176,689,830	P135,901,829

Miscellaneous Assets

This account includes NPAs amounting to P4.5 billion as of December 31, 2009 and 2008, which were assumed by the Bank in connection with the PSA entered into by the Bank with TRB in 2002 (see Note 34). As of December 31, 2009 and 2008, allowance for impairment losses on these NPAs amounted to P1.2 billion and P1.0 billion, respectively. PFRS, however, requires that the required allowance for impairment losses on the NPAs amounting to P3.1 billion at acquisition date, be charged in full in the period incurred (2002). 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 as discussed in Note 34 to the financial statements.

15. Allowance for Impairment and Credit Losses

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

	December 31, 2009					
	Loans and Receivables	AFS Securities	Property and Equipment	Investment Properties	Other Assets	Total
Balance at beginning of year	P3,560,477	P487,282	P23,703	P290,309	P1,419,105	P5,780,876
Provisions	743,855	24,718	-	41,241	329,026	1,138,840
Reclassifications	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-
Others	-	-	-	-	-	-
Balance at end of year	P4,304,332	P512,000	P23,703	P331,550	P1,748,131	P6,919,716

	December 31, 2008 (As Restated, see Note 38)					
	Loans and Receivables	AFS Securities	Property and Equipment	Investment Properties	Other Assets	Total
Balance at beginning of year	P3,519,324	P40,868	P23,194	P350,882	P1,052,075	P4,986,343
Provisions (recoveries)	73,560	310,399	509	(5,573)	329,991	708,886
Reclassifications	(119,223)	137,184	-	(55,000)	37,039	-
Write-offs	(1,259)	-	-	-	-	(1,259)
Others	88,075	(1,169)	-	-	-	86,906
Balance at end of year	P3,560,477	P487,282	P23,703	P290,309	P1,419,105	P5,780,876

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

	December 31, 2009					
	Direct Advances	Term Loans	Agri-agra Loans	Bills Purchased, Import Bills, and Trust Receipts	Others	Total
Balance at beginning of year	P392,310,155	P1,736,324,196	P272,589,009	P156,224,464	P1,003,029,599	P3,560,477,423
Provisions (recoveries)	14,692,770	332,851,379	125,168,511	(14,316,347)	285,458,400	743,854,713
Reclassifications	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-
Others	-	-	-	-	-	-
Balance at end of year	P407,002,925	P2,069,175,575	P397,757,520	P141,908,117	P1,288,487,999	P4,304,332,136
Individual impairment	P344,864,228	P2,008,448,409	P277,869,461	P120,242,461	P1,091,769,595	P3,843,194,154
Collective impairment	62,138,697	60,727,166	119,888,059	21,665,656	196,718,404	461,137,982
	P407,002,925	P2,069,175,575	P397,757,520	P141,908,117	P1,288,487,999	P4,304,332,136
Gross amount of loans, individually determined to be impaired	P1,343,484,724	P4,071,394,434	P1,624,562,534	P447,639,304	P1,628,995,354	P9,116,076,350

	December 31, 2008 (As Restated, see Note 38)					
	Direct Advances	Term Loans	Agri-agra Loans	Bills Purchased, Import Bills, and Trust Receipts	Others	Total
Balance at beginning of year	P852,558,289	P1,381,934,477	P157,668,523	P273,503,442	P853,659,550	P3,519,324,281
Provisions (Recoveries)	(410,860,618)	479,725,100	149,236,432	(97,612,043)	(46,929,486)	73,559,385
Reclassifications	(62,285,103)	(158,066,810)	(43,277,581)	(24,802,970)	169,209,013	(119,223,451)
Write-offs	-	-	-	-	(1,258,659)	(1,258,659)
Others	12,897,587	32,731,429	8,961,635	5,136,035	28,349,181	88,075,867
Balance at end of year	392,310,155	1,736,324,196	272,589,009	156,224,464	1,003,029,599	3,560,477,423
Individual Impairment	P335,693,796	P1,592,643,495	P233,250,243	P133,678,883	P858,277,077	P3,153,543,494
Collective Impairment	56,616,359	143,680,701	39,338,766	22,545,581	144,752,522	406,933,929
	P392,310,155	P1,736,324,196	P272,589,009	P156,224,464	P1,003,029,599	P3,560,477,423
Gross amount of loans, individually determined to be impaired	P1,383,291,033	P5,124,676,004	P1,124,796,808	P400,021,124	P896,640,430	P8,929,425,399

The following is the movement of the individual and collective allowance for impairment and credit losses on loans and receivables:

	December 31, 2009			December 31, 2008 (As Restated, see Note 38)		
	Individual Impairment	Collective Impairment	Total	Individual Impairment	Collective Impairment	Total
Balance at beginning of year	P3,153,543,494	P406,933,929	P3,560,477,423	P3,158,421,958	P360,902,323	P3,519,324,281
Provisions	689,650,660	54,204,053	743,854,713	68,820,381	4,739,005	73,559,385
Reclassifications	-	-	-	(160,516,052)	41,292,601	(119,223,451)
Others	-	-	-	86,817,207	-	86,817,207
Balance at end of year	P3,843,194,154	P461,137,982	P4,304,332,136	P3,153,543,494	P406,933,929	P3,560,477,423

As discussed in Note 34 to the financial statements, in November 2001, the BSP approved the staggered recognition of allowance for credit and impairment losses of P2.3 billion over five years upon the fulfillment of certain terms and conditions as specified in the PSA with TRB. In 2001, the Bank directly charged against surplus the first installment of staggered booking of allowance for impairment and credit losses amounting to P675.8 million. The BSP, in its examination conducted as of March 31, 2005, recommended an updated additional allowance for impairment and credit losses of P700.4 million instead of the remaining P384.4 million unbooked allowance, subject to the remaining three years of staggered booking.

In addition to the allowance for impairment and credit losses required by BSP to be recognized on a staggered basis, additional allowance for impairment and credit losses amounting to P892.3 million and P5.0 billion as of December 31, 2009 and 2008, respectively, should have been recorded under PFRS. The Bank determines its allowance for impairment and credit losses based on BSP regulations which differ from PFRS in some respects.

As of December 31, 2009 and 2008, the following are the required but unrecognized additional allowance for impairment and credit losses under PFRS:

	Note	2009	2008
Loans and receivables	*10*	P229,521,204	P4,341,853,822
AFS securities	*9*	524,611,354	409,194,612
Investment properties	*13*	85,966,581	108,048,005
Others	*14*	52,227,626	163,074,743
		P892,326,765	P5,022,171,182

The required additional provisioning for loans and receivables include impairment losses arising from the restructuring of certain CLNs with various counterparties and CDOs totaling P756.2 million and P1.9 billion, respectively.

The Bank recognized additional allowance for impairment and credit losses of P40.7 million and P700 million in 2009, as a direct charge against deficit as of December 31, 2008 and 2007, respectively, and P34.1 million in 2008 as a direct charge against deficit as of December 31, 2006. PFRS, however, requires that impairment and credit losses should be charged in full against profit or loss in the period such impairment and credit losses are incurred. With respect to the foregoing adjustments, the Bank accordingly restated its December 31, 2008 financial statements which are presented for comparative purposes. As required under the revised PAS 1, the statement of financial position of the Bank as of January 1, 2008 is also presented and already adjusted for the effects of the foregoing restatements. Please refer to Note 38 to the financial statements for a discussion of the adjustments applied to the relevant account balances in the December 31, 2008 and December 31, 2007 financial statements.

16. Deposit Liabilities

Under existing BSP regulations, non-FCDU deposit liabilities are subject to statutory and liquidity reserve requirements of 8.0% and 11%, respectively, and 2% of statutory reserves for deposit substitutes. As of December 31, 2009 and 2008, the Bank is in compliance with these reserve requirements.

Financial assets available for meeting these reserve requirements as of December 31, 2009 and 2008, are as follows:

	Note	2009	2008
Cash and other cash items		P862,601,315	P887,541,945
Due from BSP		8,503,131,565	6,993,152,154
Unquoted debt securities	*10*	5,008,933,841	3,933,401,514
		P14,374,666,721	P11,814,095,613

Interest expense on deposit liabilities are as follows:

	2009	2008
Demand	P96,337	P55,734,432
Savings	2,068,085,691	1,756,741,951
Time	968,409,414	857,894,089
	P3,036,591,442	P2,670,370,472

17. Bills Payable and Securities Sold Under Repurchase Agreements

This account consists of:

	Note	2009	2008
Borrowings from:			
SSURA	*31*	P778,000,000	P4,766,101,276
BSP	*13, 20, 34*	744,217,688	744,217,688
PDIC	*9, 20, 34*	568,117,368	536,179,620
Banks and other financial intermediaries	*31*	210,519,350	307,814,212
Rediscounting facility		560,176,799	105,324,848
		P2,861,031,205	P6,459,637,644

BSP

This represents the noninterest-bearing emergency loan with face value amounting to P1.7 billion and was assumed by the Bank as part of the PSA with TRB. The emergency loan is also considered as a government grant as defined under PAS 20 (see Notes 20 and 34). The emergency loan is collateralized by real estate properties under a dacion en pago arrangement with the BSP (see Note 13).

PDIC

This represents the loan granted by the PDIC to the Bank pursuant to the FAA discussed in Note 34 to the financial statements, with face value of P1.8 billion and an annual interest rate of only 3%. The loan is collateralized by the P1.8 billion government securities acquired from the proceeds of the PDIC loan and classified as part of HTM investments (see Note 9). The loan is considered as a government grant as defined under PAS 20 and was granted by the PDIC as an incentive to the Bank for acting as a "White Knight" when it entered into the PSA with TRB (see Notes 20 and 34).

Based on the term sheet formulated by regulatory agencies for the rehabilitation of TRB through the PSA with the Bank, TRB was a commercial bank that operated precariously over the past years due to liquidity, legal, and labor issues as well as ownership disputes. It has been determined earlier that allowing TRB to continue operating on its own would have resulted in its inability to pay its depositors and creditors, and eventually end in its closure. It has also been determined that its closure would have had systemic implications, aside from the losses that would have been incurred by PDIC on the insured deposits and the risk on BSP's exposures in the form of emergency loans. Rehabilitation was certainly the better option to closure.

Regulatory agencies were in agreement that the rehabilitation as proposed was in the best interest of the government, and the alternative of eventual closure would be very disadvantageous to the government. It was understood that the proposal contained concessions from PDIC as well as the BSP, but it likewise included infusion of new capital from the principal stockholders of the Bank.

On the part of the Bank, there was at the same time a solid business case for the PSA with the Bank realizing a number of benefits specifically in terms of expanded reach and additional business, including 56 branches, with over 100,000 depositors, and P7.4 billion in deposits, P1.8 billion in loans, net of write-downs, and P10.6 billion in assets.

Rediscounting Facility

This account includes a portion of the liabilities assumed by the Bank from TRB (see Note 34) pertaining to the funds made available by the Social Security System in support of the various government programs aimed at generating more employment opportunities by providing long-term financing to entrepreneurs engaged in small and medium industries, particularly those in the countryside and export-oriented enterprises. As of December 31, 2009 and 2008, receivables from customers using the rediscounting facility amounted to P560.2 million and P299.1 million, respectively.

Interest Expense

Peso-denominated bills payable are subject to annual interest rates ranging from 0.5% to 16.0% and from 1.0% to 7.6% for borrowings in 2009 and 2008, respectively. Foreign currency-denominated bills payable are subject to annual interest rates ranging from 0.7% to 16.5% and from 3.8% to 7.8% for foreign currency-denominated borrowings in 2009 and 2008, respectively.

Interest expense on bills payable and SSURA amounted to P282.9 million and P592.5 million in 2009 and 2008, respectively.

18. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Note	2009	2008
Financial:			
Accrued interest payable		P357,209,080	P456,847,022
Accrued insurance		90,343,056	78,075,686
Accrued taxes and licenses		23,100,626	52,555,864
Accrued utilities expense		4,326,072	5,844,071
Other expenses		141,585,884	53,420,147
		616,564,718	646,742,790
Nonfinancial:			
Accrued other employee benefits		67,575,665	99,792,657
Accrued taxes payable		21,095,575	75,657,117
Accrued retirement liability	*27*	19,793,582	39,719,185
Accrued lease liability		14,525,720	24,411,923
		122,990,542	239,580,882
		P739,555,260	P886,323,672

19. Subordinated Debt

On August 10, 2005, the Bank issued P1.2 billion of unsecured subordinated notes (Notes) due in 2015, but callable by the Bank and with step-up in 2010. From and including August 10, 2005 to but excluding August 10, 2010, the P1.2 billion notes will bear interest at the rate of 11.8% per annum commencing on February 10, 2006 and shall be payable semi-annually in arrears on February 10 and August 10 of each year. Unless the P1.2 billion notes are previously redeemed, the interest from and including August 10, 2010 to but excluding August 10, 2015 will be reset at the equivalent of the five-year MART1 FXTN (as of the reset date) multiplied by 80.0% plus a spread of 4.7% per annum. The stepped-up interest shall commence on February 10, 2011 and will be payable semi-annually in arrears on February 10 and August 10 of each year. The P1.2 billion notes will mature on August 10, 2015, provided that they are not previously redeemed.

On November 30, 2006, the Bank issued P300.0 million of unsecured subordinated notes due in 2016, but callable by the Bank and with step-up in 2011. From and including November 30, 2006 to but excluding November 30, 2011, the P300.0 million notes will bear interest at the rate of 8.3% per annum commencing on February 10, 2006 and shall be payable semi-annually in arrears on May 30 and November 30 of each year. Unless the P300.0 million notes are previously redeemed, the interest from and including November 30, 2011 to but excluding November 30, 2016 will be reset at the equivalent of the five-year MART1 FXTN (as of the reset date) multiplied by 80.0% plus a spread of 4.9% per annum. The stepped-up interest shall commence on May 30, 2012 and will be payable semi-annually in arrears on May 30 and November 30 of each year. The P300.0 million notes will mature on November 30, 2016, provided that they are not previously redeemed.

Interest expense on subordinated debt amounted to P168.7 million and P173.4 million for the year ended December 31, 2009 and 2008, respectively.

20. Other Liabilities

This account consists of:

	Note	2009	2008
Unearned income		P1,408,983,013	P1,637,053,734
Accounts payable		797,404,484	820,487,734
Deferred tax liabilities		680,188,292	450,833,617
Due to preferred shareholders	*22*	320,191,145	320,191,145
Withholding tax payable		58,739,335	70,757,829
Due to Treasurer of the Philippines		6,919,969	6,919,969
Miscellaneous		167,973,547	73,853,843
		P3,440,399,785	P3,380,097,873

Unearned income pertains to the "Day 1 difference" from the off-market loan from PDIC and the emergency loan from the BSP as discussed in Note 34 to the financial statements. The "Day 1 difference" is computed as the difference between the proceeds received from the off-market loans and their fair market values as of initial recognition. Unearned income is amortized over the respective terms of the PDIC loan and the BSP emergency loan using the effective interest method and is shown under "Interest income - others" account in the statement of operations.

As discussed in Note 34 to the financial statements, the Bank buys back the dacion properties only when these are subsequently sold and fully collected by the Bank. However, on properties sold on installment, the Bank recognizes accounts payable to the BSP equivalent to the repurchase price. As of December 31, 2009 and 2008, accounts payable - BSP (included under "Accounts payable" account) amounted to P552.7 million and P507.9 million, respectively.

The amounts due to preferred shareholders represent the liability on redemption of preferred stock equivalent to the par value of preferred stock "C" which was approved by the BOD for redemption in 2007. On April 3, 2008, the BSP approved the request of the Bank to redeem preferred stock "C" (see Note 22).

21. Maturity Profile of Assets and Liabilities

The following tables present the maturity profile of the assets and liabilities of the Bank (in thousands):

		2009			2008 (As Restated, see Note 38)		
		Less than	Over 12		Less than	Over 12	
	Note	12 months	months	Total	12 months	months	Total
Financial Assets							
COCI		P862,601	P -	P862,601	P887,542	P -	P887,542
Due from BSP		8,503,132	-	8,503,132	6,993,152	-	6,993,152
Due from other banks		1,651,638	-	1,651,638	863,885	-	863,885
Interbank loans receivable and SPURA	7	13,354,879	-	13,354,879	5,943,512	-	5,943,512
Financial assets at FVPL:	8						
Derivative assets		211,642	-	211,642	36,409	136,904	173,313
Government debt securities held-for-trading		532,897	269,380	802,277	35,686	531	36,217
Private equity securities held-for-trading		-	25,215	25,215	-	-	-
AFS investments-gross:	9						
Quoted government debt securities		-	4,854,301	4,854,301	-	1,414,070	1,414,070
Quoted other debt securities		-	2,964,826	2,964,826	-	956,375	956,375
Unquoted other debt securities		-	7,221,969	7,221,969	-	7,884,376	7,884,376
Quoted equity securities		-	-	-	-	241,629	241,629
Unquoted equity securities		-	438,296	438,296	-	209,604	209,604
HTM investments:	9						
Quoted government debt securities		-	8,896,151	8,896,151	-	10,896,646	10,896,646
Quoted other debt securities		-	1,923,951	1,923,951	-	487,678	487,678
Loans and receivables - gross:	10						
Receivable from customers:							
Direct advances		13,169,945	1,457,533	14,627,478	15,029,810	1,037,883	16,067,693
Term loans		2,144,193	12,482,653	14,626,846	2,126,902	10,166,832	12,293,734
Agri-agra loans		2,131,654	2,884,739	5,016,393	4,340,762	2,991,017	7,331,779
Bills purchased, import bills and trust receipts		2,474,445	103,085	2,577,530	2,878,674	248,959	3,127,633
Others		62,911	884,826	947,737	191,928	175,850	367,778
Structured notes		508,177	186,127	694,304	-	3,674,061	3,674,061
Unquoted debt securities		195,030	4,813,904	5,008,934	-	3,931,027	3,931,027
Accrued interest receivable		1,147,218	74,479	1,221,697	1,600,588	-	1,600,588
Sales contract receivable		38,950	1,899,744	1,938,694	218,181	1,321,528	1,539,709
Accounts receivable		979,010	-	979,010	226,743	-	226,743
RCOCI		177,401	-	177,401	80,680	-	80,680
		48,145,723	51,381,179	99,526,902	41,454,454	45,774,970	87,229,424
Less:							
Allowance for impairment and credit losses	15	P -	P -	P6,919,717	P -	P -	P5,657,858
Unearned interest	10	-	-	1,415,795	-	-	228,484
		-	-	8,335,512	-	-	5,886,342
		P48,145,723	P51,381,179	P91,191,390	P41,454,454	P45,774,970	P87,229,424

		December 31, 2009			December 31, 2008 (as Restated, see Note 38)		
			Less than	Over 12		Less than	Over 12
	Note	12 months	months	Total	12 months	months	Total
Financial liabilities							
Deposit liabilities							
Demand		P11,499,045	P -	P11,499,045	P8,266,602	P -	P8,266,602
Savings		47,685,734	-	47,685,734	46,321,796	18,273	46,340,069
Time		26,093,207	1,538,000	27,631,207	21,408,230	1,861,241	23,269,471
Bills payable and SSURA		1,073,677	1,787,354	2,861,031	4,977,405	1,482,233	6,459,638
Manager's checks and acceptances payable		364,243	-	364,243	234,608	-	234,608
Due to BSP		-	-	-	33,798	-	33,798
Accrued interest and other expenses		616,565	-	616,565	646,743	-	646,743
Subordinated debt		1,196,995	298,150	1,495,145	-	1,490,344	1,490,344
Financial liabilities at FVPL		-	1,351,925	1,351,925	2,489	1,947,676	1,950,165
Other liabilities		1,124,516	-	1,124,516	1,148,729	-	1,148,729
		89,653,982	4,975,429	94,629,411	83,040,400	6,799,767	89,840,167
Nonfinancial liabilities							
Accrued taxes and other expense payable		21,096	101,895	122,991	75,657	163,924	239,581
Other liabilities		-	2,315,884	2,315,884	109,683	2,087,887	2,197,570
		21,096	2,417,779	2,438,875	185,340	2,251,811	2,437,151
		P89,675,078	P7,393,208	P97,068,286	P83,225,740	P9,051,578	P92,277,318

22. Capital

The following table shows the movements in the number and monetary amount of common shares in 2009 and 2008:

	2009		2008	
	Number of shares	Amount	Number of shares	Amount
Beginning balance	29,158,888	P2,915,888,800	18,658,884	P1,865,888,400
Issuance of stock	23,341,112	2,334,111,200	10,500,004	1,050,000,400
Total issued and subscribed	52,500,000	5,250,000,000	29,158,888	2,915,888,800
Less subscriptions receivable	-	(38,561,960)	-	-
Stock dividend distributable	-	6,100	-	6,100
	52,500,000	P5,211,444,140	29,158,888	P2,915,894,900

On December 16, 2008, the BOD of the Bank approved the payment of P320.2 million representing the unpaid portion of the redemption price of preferred shares. Under the Bank's articles of incorporation, the redemption price of preferred shares is computed as par value plus certain amount which is calculated based on the average 91-day Philippine Treasury Bill for series "A", "B", "D" and "E", and average 182-day Philippine Treasury Bill for series "C". Settlement of the liability to preferred shareholders will be made through a sinking fund which the Bank was required to set-up.

In 2009, the major stockholders of the Bank infused additional capital totaling P4.25 billion in exchange for additional subscriptions to 22.96 million common shares with a par value of P100 per share. The excess of the paid-up capital over the par value of the common shares subscribed amounting to P1.95 billion was recognized under "Paid-in surplus" account in the statement of financial position.

On February 17, 2009 and November 17, 2009, the BOD approved the increase in the authorized capital stock of the Bank from P6 billion to P10 billion, consisting of 100 million common shares with a par value of P100 per share, and then to P22 billion, consisting of 220 million common shares with a par value of P100 per share, respectively. The shareholders approved the increase in the authorized capital stock to P10 billion and then to P22 billion on February 17, 2009 and November 26, 2009, respectively. By March 1, 2010, about 34% of the increase in authorized capital stock or 54.5 million shares have been subscribed to, whereas 25% of the amount subscribed or P1.36 billion had been paid up.

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.

Capital Management

The Bank's capital base, comprised of capital stock, paid-in surplus, surplus, revaluation increment on property and unsecured subordinated debt, is actively being managed to cover risks inherent in the Bank's operations. As part of its capital management objectives, the Bank retired outstanding preferred shares amounting to P204.6 million in 2008 while at the same time bolstering its capital structure through additional capital infusion from San Miguel Properties, Inc. (SMPI) and San Miguel Corporation (SMC) Retirement Plan for a total of P3.28 billion and P2.0 billion in the form of paid-up common stock in 2009 and 2008, respectively. The initial subscription amount for this capital infusion was received by the Bank in October 2007 and was reflected as "Deposit for stock subscription" in the statement of financial position as of December 31, 2007. Another deposit for future stock subscription was received by the Bank in May 2008.

The Bank has complied in full with regulatory capital requirements as of December 31, 2009 and 2008, based on the CAR reports it submitted to the BSP which provided that the reported adjusted qualifying capital of P9.5 billion and P5.3 billion, respectively, exceeded the required minimum regulatory capital of P2.4 billion as determined by the Bank. As of December 31, 2009 and 2008, based on the CAR reports submitted to BSP, the Bank's CAR of 15.6% and 10.7%, 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") and adopted by the BSP effective July 1, 2007, through BSP Circular 538, based on the Basel II framework covering market, credit and operational risks.

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 policies which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.0% for both solo (head office and branches) and consolidated basis. Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

Under BSP Circular 360, effective July 1, 2003, CAR is to be inclusive of a market risk charge. As of December 31, 2009 and 2008, based on the CAR reports submitted to the BSP, the Bank was in compliance with the CAR. The CAR of the Bank as reported to the BSP as of December 31, 2009 and 2008 are shown below.

	2009	2008
Tier 1 capital	P10,396	P5,604
Tier 2 capital	2,281	2,723
Gross qualifying capital	12,677	8,327
Less required deductions	63	32
Total qualifying capital	P12,614	P8,295
Risk weighted assets	81,013	P77,553
CAR	15.6%	10.7%

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.

BSP Circular 560 dated January 31, 2007, which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing CAR.

Certain adjustments are made to PFRS-results and reserves to calculate CAR which included the Bank's accounting of the following transactions that require different accounting treatments under PFRS:

a) staggered booking of the deficiency in allowance for impairment and credit losses in 2007;
b) calculation of reserves for allowance for credit losses on loans and receivables;
c) 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;
d) deferral of losses on sold NPLs to SPV Company;
e) accounting for investment properties; and
f) accounting for CLNs linked to ROPs.

For items a, c and f, the recognition of the Bank was based on the accounting treatment approved by BSP (see Notes 34 and 35). For item d, the accounting treatment was based on the provisions of the SPV law.

Financial Performance

The following basic ratios measure the financial performance of the Bank:

	2009	2008
Return on average equity (ROE)	7.50%	4.97%
Return on average assets (ROA)	0.44%	0.31
Net interest margin on average earning assets	4.58%	4.65

As discussed in Notes 10, 14, 15 and 34 to the financial statements, had each of the departures from PFRS been adjusted in the books of the Bank, the ROE, ROA and net interest margin on average earning assets would have been reduced proportionately by the effects of such adjustments required to conform to PFRS.

23. Surplus Reserves

	2009	2008
Reserve for trust business	P62,302,856	P62,302,856
Reserve for self-insurance	40,000,000	40,000,000
Reserve - others	56,000,000	-
	P158,302,856	P102,302,856

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.

In 2008, the Bank has completed the redemption of all outstanding preferred shares. Accordingly, the surplus previously appropriated by the Bank amounting to P120 million was reversed.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Bank's personnel or third parties.

24. Interest Income

This account consists of:

	2009	2008
Financial assets at FVPL:		
Government debt securities held for trading	P123,032,655	P23,668,495
Quoted other debt securities	2,042,377	-
Derivative assets	-	57,941,123
Equity securities	3,292,163	-
AFS securities:		
Quoted government debt securities	206,356,094	385,767,724
Quoted other debt securities	69,620,921	423,572,234
HTM investments:		
Quoted government debt securities	879,011,635	378,173,766
Quoted other debt securities	50,659,362	52,571,421
	P1,334,015,207	P1,321,694,763

Foreign currency-denominated financial assets at FVPL bear EIRs ranging from 1.8% to 8.4% and from 3.7% to 9.9% in 2009 and 2008, respectively. Peso-denominated financial assets at FVPL bear EIRs ranging from 3.5% to 7.9% and from 4.0% to 11.2% for the year ended December 31, 2009 and 2008, respectively.

Foreign currency-denominated AFS debt securities bear EIRs ranging from 2.4% to 7.8% and from 2.0% to 11.2% in 2009 and 2008, respectively. Peso denominated AFS debt securities bear EIRs ranging from 6.4% to 8.0% and from 5.8% to 6.3% in 2009 and 2008, respectively.

Foreign-currency denominated HTM instruments bear EIRs ranging from 2.2% to 7.6% and from 1.0% to 20.1% in 2009 and 2008, respectively. Peso-denominated HTM securities bear EIRs ranging from 5.4% to 14.5% and from 6.1% to 14.5% in 2009 and 2008, respectively.

25. Service Charges, Fees and Commission

This account consists of:

	2009	2008
Service charges	P259,416,390	P305,249,829
Letters of credit fees	30,158,229	38,988,706
Trust income	10,994,283	22,785,918
Penalty charges	5,229,349	30,335,263
Acceptance fees	3,646,967	3,095,175
Others	37,906,027	2,410,839
	P347,351,245	P402,865,730

26. Trading and Investment Securities Gains (Losses)

This account consists of realized and unrealized gains (losses) from the following securities:

	2009	2008
		(As Restated - see Note 38)
Financial assets at FVPL:		
Debt securities	P58,456,880	P30,852,036
Derivatives	817,488,599	(1,850,359,729)
AFS securities	219,111,839	(96,865,399)
	P1,095,057,318	(P1,916,373,092)

Please refer to Notes 9 and 38 to the financial statements for a discussion of the adjustments applied to restate the December 31, 2008 financial statements account balances.

27. Retirement Plan

The Bank has a funded noncontributory defined benefit retirement plan covering substantially all of its employees. The retirement fund is being managed and administered by the Bank's Trust Services Group which acts as the trustee under the terms of the plan.

The date of the last actuarial valuation is January 1, 2009. The discount rate as of December 31, 2009 and 2008 is 9.8%. The expected rate of return on assets is determined based on the market price prevailing on the date of valuation, applicable to the period over which the obligation is to be settled.

As December 31, 2009 and 2008, the principal actuarial assumptions used in determining retirement benefits liability for the Bank's retirement plan are shown below:

	2009	2008
Average working life	13	13
Discount rate	9.8%	9.8%
Expected rate of return on assets	7.0%	7.0%
Future salary increases	7.0%	7.0%

The retirement benefits expense included under "Compensation and fringe benefits" account in the statement of operations are as follows:

	2009	2008
Current service cost	P29,431,114	P34,981,019
Interest cost	29,701,097	24,206,594
Expected return on plan assets	(17,544,832)	(16,331,213)
Net actuarial loss recognized during the period	-	4,455,128
	P41,587,379	P47,311,528

The net retirement benefits liability (included under "Accrued interest, taxes and other expenses" account) recognized in the statement of financial position are as follows:

	2009	2008
Present value of defined benefits obligation	P341,082,584	P302,312,592
Fair value of plan assets	(309,336,057)	(250,640,462)
Present value of unfunded obligation	31,746,527	51,672,130
Unrecognized actuarial losses	(11,952,945)	(11,952,945)
Net retirement liability	P19,793,582	P39,719,185

The movements of the retirement benefits liability recognized in the statement of financial position follow:

	2009	2008
Balance at beginning of year	P39,719,186	P20,007,934
Retirement benefits expense	41,587,378	47,311,528
Contribution paid	(61,512,982)	(27,600,276)
Balance at end of year	P19,793,582	P39,719,186

The movements of the present value of defined benefits obligation of the Bank are as follows:

	2009	2008
Balance at beginning of year	P302,312,592	P345,808,489
Current service cost	29,431,114	34,981,019
Interest cost	29,701,097	24,206,594
Benefits paid	(20,362,219)	(26,463,137)
Actuarial loss on obligation	-	(76,220,373)
Balance at end of year	P341,082,584	P302,312,592

The movements of the fair value of plan assets of the Bank are as follows:

	2009	2008
Balance at beginning of year	P250,640,462	P233,303,038
Expected return on plan assets	17,544,832	16,331,213
Contribution paid by employer	61,512,982	27,600,276
Benefits paid	(20,362,219)	(26,463,137)
Actuarial loss on plan assets	-	(130,928)
Balance at end of year	P309,336,057	P250,640,462

The actual return on plan assets amounted to P17.54 million and P8.1 million for the year ended December 31, 2009 and 2008, respectively.

The Bank expects to contribute P50.8 million to its defined benefits retirement plan in 2010.

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2009	2008
Government securities	77.2%	86.1%
Equity instruments	7.0%	6.9%
Other assets	15.8%	7.0%
	100.0%	100.0%

Information on the Bank's retirement plan for the current and previous years are as follows:

	2009	2008	2007	2006
Present value of the defined benefit obligation	P341,082,584	P302,312,592	P345,808,489	P270,771,213
Fair value of plan asset	309,336,057	250,640,462	233,303,038	203,407,074
Deficit	31,746,527	51,672,130	112,505,451	67,364,139
Experience adjustment on plan liabilities	-	(76,220,373)	44,918,128	78,342,397
Experience adjustment on plan assets	-	(130,928)	7,230,915	19,208,679

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 5.0% to 15.0%. Rent expense charged to current operations (included under "Occupancy and other office equipment-related" account in the statement of operations) amounted to P175.0 million and P145.2 million in 2009 and 2008, respectively.

Future minimum rentals payable under non-cancelable operating leases are as follows (in millions):

	2009	2008
Within one year	P137.0	P130.3
After one year but not more than five years	378.4	489.6
After five years	104.0	78.1

Bank as Lessor

The Bank entered into commercial property leases for its office space. These non-cancelable leases have remaining lease terms ranging from 1 to 6 years. As of December 31, 2009 and 2008, there is no contingent rental income. Rent income of the Bank related to these property leases amounting to P13.3 million and P11.9 million in 2009 and 2008, respectively, are shown under "Miscellaneous income" account in the statement of operations.

Future minimum rentals receivable under non-cancelable operating leases are as follows (in millions):

	2009	2008
Within one year	P6.3	P17.8
After one year but not more than five years	1.0	2.1
After five years	-	-

29. Miscellaneous Expenses

	Note	2009	2008
Insurance		P171,156,463	P142,300,000
Litigation and acquired assets		103,272,096	117,431,969
Entertainment, amusement and recreation	*30*	90,507,667	81,309,720
Marketing		75,429,173	59,816,808
Communications		58,979,117	46,556,105
Management and professional fees		56,887,600	36,897,153
Messengerial services		40,741,268	60,792,900
Transportation and travel		37,395,032	41,867,511
Charges		35,309,884	28,020,955
Supervision and examination fee		28,741,802	34,245,436
Forms and supplies		25,795,378	31,037,819
Others	*9, 33*	92,283,196	66,638,316
		P816,498,676	P746,914,692

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 statement of operations) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT).

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 government securities and other deposit substitutes.

Effective November 1, 2005, Republic Act (RA) No. 9337, an act amending the National Internal Revenue Code, provides that the RCIT rate shall be 35.0% until January 1, 2009. Starting January 1, 2009, the RCIT rate shall be 30.0%. Interest allowed as a deductible expense is reduced by an amount equivalent to 42.0% of interest income subjected to final tax starting November 1, 2005 until December 31, 2008. Starting January 1, 2009, interest allowed as deductible expense shall be reduced by 33%. 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 three-year period from the year of incurrence.

In addition, Revenue Regulation 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 P12.2 million in 2009 and P31.0 million in 2008. EAR expense is included under "Miscellaneous expenses" account in the statement of operations (see Note 29).

Foreign Currency Deposit Unit
R.A. 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 Monetary Board 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%; and

- Interest income derived by resident individual or corporation on deposits with FCDUs and OBUs are subject to 7.5% final tax.

In October 2007, the Bank availed of the Tax Amnesty Program which covered tax assessments received from the Bureau of Internal Revenue on FCDU taxation and on two other industry issues.

Income tax expense consists of:

	2009	2008
Current:		
Final	P200,621,313	P101,401,133
MCIT	24,058,500	28,580,327
	224,679,813	129,981,460
Deferred	(4,209,550)	23,589,604
	P220,470,263	P153,571,064

The reconciliation of the income tax expense computed at the statutory tax rate to the effective income tax shown in the statement of operations is as follows:

	2009	2008 (As Restated - see Note 38)
Income (loss) before income tax expense	P561,897,522	(P1,714,592,953)
Income tax at statutory rate	P234,710,335	P145,825,056
Additions to (reductions in) income taxes resulting from the tax effects of:		
Tax paid and tax exempt income	(124,110,491)	(222,070,728)
Changes in unrecognized deferred tax assets	56,463,853	238,319,806
Nondeductible expenses	55,367,811	72,079,242
Nontaxable income	(42,019,024)	(833,286)
FCDU income (loss)	39,284,377	(96,244,537)
Others	773,402	16,495,511
Effective income tax	P220,470,263	P153,571,064

The components of net deferred tax assets (included under "Other assets and Other liabilities" accounts in the statement of financial position) are as follows:

	2009	2008
Deferred tax asset on allowance for impairment and credit losses	P715,402,689	P481,838,461
Deferred tax liability on:		
Unrealized gain on foreclosed properties	(201,552,752)	(201,148,491)
Revaluation increment on property	(96,246,009)	(100,020,846)
Profits on investment properties sold under installments	(65,909,982)	(57,390,092)
Unrealized foreign exchange gain	(5,682,584)	(38,460,537)
Valuation gain on derivatives and financial assets carried at FVPL	(302,754,755)	(44,331,197)
Unwinding of interest on impaired loans	(6,585,571)	(6,585,570)
Unamortized transaction cost on subordinated debt	(1,456,639)	(2,896,883)
	(680,188,292)	(450,833,617)
Net deferred tax assets	P35,214,397	P31,004,847

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:

	December 31, 2009	
	Deductible Temporary Differences	Deferred Tax Assets
Allowance for impairment and credit losses	P4,311,943,527	P1,293,583,058
NOLCO	2,211,455,890	663,436,767
Accumulated loss on foreclosure	736,908,680	221,072,604
Accumulated depreciation on investment properties	220,386,528	66,115,958
Accrued employee benefits and unamortized past service cost	169,150,518	50,745,155
MCIT	80,071,700	80,071,700
Accrued rent expense	38,858,313	11,657,494
Others	105,144,689	31,543,407
	P7,873,919,845	P2,418,226,143

	December 31, 2008	
	Deductible Temporary Differences	Deferred Tax Assets
Allowance for impairment and credit losses	P3,882,111,413	P1,164,633,424
NOLCO	2,478,907,402	743,672,221
Accumulated loss on foreclosure	382,280,691	114,684,207
Accumulated depreciation on investment properties	158,348,196	47,504,459
Accrued employee benefits and unamortized past service cost	143,294,254	42,988,276
MCIT	63,646,900	63,646,900
Accrued rent expense	24,411,923	7,323,577
Others	105,144,689	31,543,407
	P7,238,145,468	P2,215,996,471

Details of the Bank's NOLCO and MCIT are as follows:

NOLCO

Inception Year	Amount	Expired	Balance	Expiry Year
2005	P1,492,573,462	P -	P1,492,573,462	2010*
2006	375,474,564	375,474,564	-	2009
2007	413,175,698	-	413,175,698	2012*
2008	197,683,678	-	197,683,678	2011
2009	108,023,052	-	108,023,052	2012
	P2,586,930,454	P375,474,564	P2,211,455,890	

*Per R.A. 9182, The Special Purpose Vehicle Act of 2002, loss on sale of non-performing costs to an SPV shall be treated as ordinary loss, and maybe carried over as a deduction from gross income fro a period of five (5) consecutive taxable years.

MCIT

Inception Year	Amount	Expired	Balance	Expiry Year
2006	P 7,633,700	P7,633,700	P-	2009
2007	27,432,873	-	27,432,873	2010
2008	28,580,327	-	28,580,327	2011
2009	24,058,500	-	24,058,500	2012
	P87,705,400	P7,633,700	P80,071,700	

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 of December 31, 2009 and 2008:

	Note	2009	2008
Contingent Assets:			
Future/spot exchange bought		P10,440,320,000	P7,422,306,758
Outward bills for collection		270,068,626	274,128,693
Fixed income securities purchased		-	56,005,813
Traveler's check unsold		-	3,391,027
Others		-	90,806,615
Total		P10,710,388,626	P7,846,638,906
Commitments and Contingent Liabilities:			
Future/spot exchange sold		P10,052,890,000	P7,256,925,701
Trust department accounts	*32*	3,932,085,555	1,862,547,255
Unused commercial letters of credit		1,328,181,789	1,933,695,081
Fixed income securities sold		142,296,018	547,837,813
Late deposits/payments received		103,471,834	111,438,127
Outstanding guarantees		22,142,996	51,153,032
Items held for safekeeping		30,531	521,535,600
Securities/items held as collateral		5,702	5,829
Leverage exposure		-	10,914,750,000
Total		P15,581,104,424	P23,199,888,438

Also, 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 consulting with its legal counsel, the suits and claims, if decided adversely, will not involve sums having a material effect on the financial statements.

Other Commitments

The table below summarizes the assets pledged by the Bank to secure outstanding liabilities:

	Carrying Amount		Fair Value		Related liability	
	2009	2008	2009	2008	2009	2008
Interbank loans receivable	P -	P305,996,233	P -	P305,996,233	P -	P -
AFS investments	347,269	516,542,400	347,269	516,542,400	296,000	299,774,904
HTM investments	2,395,712	7,538,194,981	2,395,712	6,941,242,552	1,050,117	4,466,326,372
	P2,742,981	P8,360,733,614	P2,742,981	P7,763,781,185	P1,346,117	P4,766,101,276

The related liability pertaining to interbank loans receivable amounted to P2.3 billion in 2008 which is already part of the obligation collateralized by AFS and HTM investments. Interbank loans receivable represent cash collateral where the Bank is required to place with foreign counterparty banks when the current market value of the collaterals is lower than the agreed market value at the fixing date of its 'repo' transactions.

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 statement 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 statement of financial position since these are not assets of the Bank (see Note 31). Total assets held by the Bank's Trust Services Group amounted to P3.9 billion and P1.9 billion as of December 31, 2009 and 2008, respectively.

In compliance with the requirements of current banking regulations relative to the Bank's trust functions, government securities reported under "HTM investments" account with a face value of P54.9 million and P53.0 million, respectively, are deposited with BSP, as of December 31, 2009 and 2008, 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. Transactions between related parties are based on terms similar to those offered to non-related parties.

In the ordinary course of business, the Bank has various transactions with its affiliates 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, these transactions 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 423 which provides for the amended definition of DOSRI accounts. The following table shows information relating to DOSRI loans:

	2009	2008
Total outstanding DOSRI loans	P96,124,876	P651,090,000
Percent of DOSRI loans to total loans	0.20%	1.7%
Percent of unsecured DOSRI loans to total DOSRI loans	0.0%	4.6%
Percent of past due DOSRI loans to total DOSRI loans	0.0%	0.0%
Percent of nonperforming DOSRI loans to total DOSRI loans	0.0%	0.0%

The year-end balances of receivables and interest income in respect of related parties included in the Bank's financial statements are as follows:

		Loans		Interest Income	
	Relationship	2009	2008	2009	2008
SMC Retirement fund	Stockholder	P -	P -	P -	P5,014,306
San Miguel Corp.	Entity under common control	-	-	-	526,667
		P -	P -	P -	P5,540,973

Under BSP Circular 423, loans and other credit accommodations and guarantees secured by assets are considered as non-risk by the MB are and therefore excluded from DOSRI individual and aggregate ceilings. Based on the said circular, the outstanding loan with ABC Development Corp. as of December 31, 2008 is reported by the Bank as DOSRI loan.

The year-end balances of deposits and interest expense in respect of related parties included in the Bank's financial statements are as follows:

	2009	2008
Deposit liabilities	P6,796,425,364	P5,175,811,615
Interest expense	258,695,290	48,951,028

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.

In relation to the Bank's investment in BANGE, the Bank also entered into a Technical Services Agreement (TSA) with BANGE to provide management and technical services for establishing and subsequently managing BANGE for a period of five (5) years renewable for another five (5) years.

For services rendered under the TSA, BANGE shall pay the Bank an annual fee of US$500,000 which is recorded under "Miscellaneous income" account in the statement of operations.

<u>Compensation of Key Management Personnel of the Bank</u>
The remuneration of directors and other members of key management for December 31, 2009 and 2008 follow:

	2009	2008
Short-term employee benefits	P177,441,210	P154,264,147
Post-employment benefits	17,733,550	5,659,647
	P195,174,760	P159,923,794

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 and properties 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 of August 31, 2001. Said assets and properties are inclusive of the banking goodwill of TRB, its bank premises and licenses to operate its head office and branches, its leasehold rights and patents used in connection with its business or products. In consideration of the sale of identified recorded assets and properties, the Bank assumed identified recorded TRB liabilities including booked contingent liabilities as listed and referred to in its CSOC as of 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 CB 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.

<u>Settlement of Liabilities of TRB</u>
Part of the liabilities of TRB assumed by the Bank amounting to ₱2.4 billion pertains to 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 ten 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 six percent 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 ten-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 toP2.3 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. ODC amounted to NIL as of December 31, 2009 and 2008.

In 2008 and 2007, the Bank repurchased certain investment properties under the dacion en pago with a mandatory buy-back agreement from the BSP at dacion price plus interest and/or charges amounting to P94.6 million and P80.8 million, respectively. These repurchased properties were sold to third parties during the year.

<u>FAA</u>
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 (included under Bills Payable) representing the amount of insured deposits of TRB as of June 30, 2001, which should have been paid by PDIC under a closure scenario. The proceeds of the loan were used to purchase 20-year with a coupon rate of 15.0% per annum (included under HTM) to be pledged as collateral for the loan (see Note 17). 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) is being used to offset on a staggered basis 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'.

b. The Bank infused additional fresh capital amounting to P200.0 million in 2001 and commits to infuse such additional amounts in the event of 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 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 PFRS. These transactions and their effects are described below:

a. Staggered Recognition of Allowance for Impairment and Credit Losses
In 2001, the BSP approved the recognition of allowance for impairment losses of the Bank amounting to P2.3 billion based on the 2000 BSP examination on a staggered basis over five years (see Note 15). Any additional valuation reserves required on subsequent examinations after the approval shall immediately be recognized by the Bank in compliance with PFRS which requires that impairment and credit losses should be charged in full against current operations in the year such impairment and credit losses are incurred.

b. 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 of 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. NPL included under miscellaneous assets comprised TRB's loans amounting to P3.1 billion as of 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.

The Bank recognized net interest income amounting to P159.3 million in 2009 and P159.1 million in 2008 from the FAA. In accordance with the PSA entered by the Bank and TRB, an amount equivalent to the net interest income of P159.3 million in 2009 and P159.1 million in 2008 was recognized in profit or loss to increase the allowance for impairment losses on the "Miscellaneous assets" (see Note 14).

35. Notes to Statement of Cash Flows

The following is a summary of noncash activities of the Bank:

	2009	2008
Noncash operating activities:		
Restricted interbank loans receivables	P11,793,121,808	P1,953,360,239
Noncash investing activities:		
Additions to investment properties in settlement of loans	577,430,071	624,423,983
Increase in sales contract receivable from sale of investment properties	707,917,424	500,773,683
Noncash financing activities:		
Application of deposit for stock subscription for the issuance of common shares	1,000,769,600	500,000,000
Reclassification of deposit for stock subscription from other liabilities	-	769,600

36. Reclassification of Financial Assets

In 2008, following the amendments to PAS 39 and PFRS 7, *Reclassification of Financial Assets*, the Bank reclassified certain financial assets from the financial assets at FVPL category to HTM investments and from AFS securities to HTM investments and loans and receivables [under Unquoted Debt Securities Classified as Loans (UDSCL)] category in the statement of financial position. The recent global credit crunch had prompted the amendments to be issued by the International Accounting Standards Board, and the adoption of these amendments permitted the Bank to revisit the existing classification of its financial assets.

On October 31, 2008, in a similar response to the global credit crunch, the BSP issued Circular 628, *Guidelines on the Reclassification of Financial Assets Between Categories*, which adopted the provisions of the amendments to PAS 39 and PFRS 7 for prudential reporting purposes. Additional alternative accounting treatment for prudential reporting discussed under Section 2 of Circular 628 was adopted by the BSP which require different treatments under PFRS. On February 2, 2009, the SEC adopted paragraphs (1) to (4) of Section 2 of BSP Circular 628 as part of accounting principles generally accepted in the Philippines for banks.

Under Section 2 paragraph (4) of BSP Circular 628, credit-linked notes (CLNs) and other similar instruments linked to Republic of the Philippines (ROP) bonds may be reclassified out of Held-for-Trading (HFT) category into AFS/HTM/UDSCL categories in accordance with Section 1, without bifurcating the embedded derivatives.

Based on the foregoing, the Bank identified financial assets classified under FVPL and AFS, for which at September 22, 2008, it had a clear change of intention from selling these assets in the short-term to holding these assets for the foreseeable future.

Prior to reclassification, structured instruments containing interest rate linked derivative instruments were classified as AFS, while structured instruments with embedded credit derivatives were bifurcated. The host instruments and embedded credit derivatives of the bifurcated structured instruments were classified as AFS securities and financial assets at FVPL, respectively, and measured at fair values. However, on September 22, 2008, the Bank decided to reclassify both the embedded credit derivatives classified at FVPL and the host contracts of structured instruments classified as AFS to UDSCL at their carrying values. The reclassification was approved by the Bank's Audit Committee on October 31, 2008.

Under PFRS, reclassification out of financial assets at FVPL is allowed only for financial assets held for trading purposes and excludes derivatives or financial assets designated as at FVPL. Also, under PFRS, host instruments of structured products where values cannot be recovered in full other than credit deterioration is not eligible to be reclassified to UDSCL. Financial assets eligible to be reclassified from HFT/AFS into AFS/HTM/UDSCL are measured at fair value at the date of reclassification in accordance with PFRS. As of December 31, 2008, had the reclassification to UDSCL of the embedded credit derivatives and the related host contract of structured products not been made in accordance with PFRS, assets and liabilities would have been increased by P388.1 million and P1.7 billion, respectively. Equity and net income would have been decreased by P1.3 billion and P1.7 billion in 2008, respectively.

In order to resolve the report qualification made by its predecessor auditors with respect to the improper reclassification of host contracts and embedded credit derivatives to UDSCL, the Bank reversed the accounting entries made to reclassify the host contracts and the related embedded credit derivatives of the aforementioned structured products to UDSCL. Accordingly, the Bank restated the relevant account balances and charged against surplus the unrealized losses from the foregoing embedded credit derivatives classified back to FVPL amounting to P1.7 billion against unrestricted surplus in the December 31, 2008 financial statements. The Bank also recognized the net unrealized gains from the foregoing host contracts classified back to AFS amounting to P388.1 million as part of equity as of December 31, 2008.

The carrying values and fair values of the reclassified assets follow:

	December 31, 2009		December 31, 2008 As Restated	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets at FVPL to HTM investments	P802,478,621	P843,893,232	P832,884,835	P740,633,169
AFS securities to HTM investments	7,076,900,351	7,469,273,451	7,481,803,376	6,791,010,217
	P7,879,378,972	P8,313,166,683	P8,314,688,211	P7,531,643,386

37. Structured Notes

Structured notes pertain to the host contracts of debt securities issued by foreign counterparty banks, which contain features such as leveraged interest, prepayments options and credit linkage. These notes have various maturities until 2031. 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 certain reference asset/s most which are 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. These notes contain embedded credit default swaps which were valued separately as derivatives with changes in fair value reported in statement of comprehensive income in 2007. In 2008, these bifurcated derivative instruments were reclassified to UDSCL.

In 2008, the Bank terminated several structured instruments with original investment amount of $26.2 million. As part of termination, the Bank was required to pay an additional $13.7 million, which includes breakage cost of $4.6 million, to receive the underlying assets of the structured instruments. These assets were recorded in the financial statements based on the original investment amount and additional cash payment made. As of December 31, 2008, these assets included debt instruments classified as 'AFS investments', 'HTM investments' and 'Loans and receivables' which were reflected at amortized cost amounting to P9.5 million, P14.9 million and P1.6 billion, respectively. Under PFRS, debt instrument classified as AFS securities should be reflected at fair values.

PFRS requires that assets received are measured at fair values at date of exchange. Further, PFRS provide that costs such as breakage costs which do not qualify as transaction costs should be expensed as incurred.

In order to resolve the report qualification made by its predecessor auditors with respect to the foregoing, the Bank restated the relevant account balances and charged against unrestricted surplus the net unrecognized losses from terminating the aforementioned structured instruments and the unrecorded swap breakage costs totaling to P244.9 million in the December 31, 2008 financial statements. For the details of the restatements made by the Bank on its December 31, 2008 financial statements, please see Note 38 to the financial statements.

In 2009, the Bank pre-terminated structured instruments with a notional value totaling $20 million, comprised of a structured credit-linked note and an interest rate-linked structured note with a notional value of $10 million each.

38. Restatements

In 2009, the Bank restated its December 31, 2008 financial statements to resolve the report qualification made by its predecessor auditors on the following items in their audit report dated April 13, 2009:

a. Non-compliance with PAS 40 on the proper recognition of investment properties acquired prior to 2004;

b. Deferral of the full recognition of the required impairment and credit losses on the Bank's financial and non-financial assets;

c. Reclassification of embedded derivative instruments and host instruments of structured products, the original investment for which may not be substantially recovered in full other than due to credit deterioration of the issuer, out of the FVPL and the AFS categories, respectively, to the UDSCL category; and

d. Non-recognition of assets received from terminating certain structured investments in 2008 at their fair values at the time of exchange which were below the carrying values of the terminated structured investments, and the deferral of the related swap breakage costs.

The summary of the effects of the restatements made by the Bank on the relevant account balances in order to resolve the foregoing items is shown below:

	Debit (Credit)					
	Available for Sale Securities	Loans and Receivables	Investment Properties	Financial Liabilities at Fair value though profit or Loss	Surplus (Deficit)	Net Unrealized Gains (Losses on) Available for-sale Securities
December 31, 2007 balances as previously reported	P16,234,061,072	P35,638,422,650	P4,489,638,575	P4,127,817	(P38,082,406)	P290,661,193
Qualification a	-	-	(137,362,696)	-	(226,432,650)	-
Qualification b	-	(700,000,000)	-	-	(700,000,000)	-
December 31, 2007, as restated	P16,234,061,072	P34,938,422,650	P4,352,275,879	P4,127,817	(P964,515,056)	P290,661,193
December 31, 2008 balances as previously reported	P2,784,143,151	P55,350,648,975	P4,418,899,666	P44,540,056	P124,167,696	(P371,228,708)
Qualification a	-	-	(177,028,247)	-	(252,233,602)	-
Qualification b	-	(740,721,533)	-	-	(740,721,533)	-
Qualification c	7,434,610,592	(7,046,558,487)	-	1,905,624,989	(1,905,624,989)	388,052,105
Qualification d	-	(244,885,000)	-	-	(244,885,000)	-
December 31, 2008, as restated	P10,218,753,743	P47,318,483,955	P4,241,871,419	P1,950,165,045	(P3,019,297,428)	P16,823,397

	Profit or Loss Accounts Affected	Net Income (Loss)
December 31, 2008 balances as previously reported		P263,071,954
Qualification a	Gain on foreclosure or sales of repossessed assets - net and income tax expense (provision for income tax - deferred)	(25,800,954)
Qualification b	Impairment losses	(40,721,533)
Qualification c	Trading and investment securities (losses) - net	(1,666,257,420)
Qualification d	Interest income (premium amortization)	(244,885,000)
December 31, 2008, as restated		(P1,714,592,953)

"Only in growth, reform, and change, paradoxically enough, is true security to be found."

SECURITY

At Bank of Commerce, secure banking is one of our top priorities. From securing account transactions both online and through our tellers, we make sure our systems are up-to-date and impenetrable. But aside from that, we put importance on securing lasting relationships with our clients and partners through our service-oriented and professional personnel.

Security is ensured as the Bank of Commerce family continues to strive for even greater heights as it leverages its capital growth, loyal customer base and investments in technology.

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1451 Quezon Avenue Corner Examiner St.,
Quezon City
(632) 924-6626 / (632) 925-1209
(632) 414-1044 / (632) 927-4063 (fax)

DILIMAN
Commonwealth Ave., Corner Masaya St.,
Diliman, Quezon City
(632) 920-2324 / (632) 927-6074
(632) 922-7961 to 62 / (632) 921-2081 (fax)

VALENZUELA
Unit 12 & 13 PureGold Price Club,
Brgy. Dalandanan, McArthur Highway
Valenzuela City
(632) 794-6063 / (632) 794-6058
(632) 794-6063 / (632) 322-2260
(632) 794-6064 (fax)

AREA 5-SOUTH LUZON

ALABANG
Unit M2-6 Molito II Bldg.,
Madrigal Avenue Corner Alabang-Zapote Road,
Alabang, Muntinlupa City
(632) 850-8718 / (632) 850-1874
(632) 850-1574 / (632) 850-4935 (fax)

LAS PIÑAS
Real Street, Alabang-Zapote Road
Pamplona, Las Pinas City
(632) 872-3632 / (632) 873-6296
(632) 872-3062 (fax)

DASMARIÑAS, CAVITE
Veluz-Frances Plaza Bldg.,
Aguinaldo Highway, Dasmarinas,Cavite
(632) 529-8129 Manila line
(046) 416-5997
(046) 416-2335 (fax)

SAN PEDRO
Pacita Commercial Complex,
San Pedro, Laguna
(632) 808-2026 / (632) 808-1901
(632) 808-2002 / (632) 808-3909 (fax)

STA. ROSA
Shop I-A G/F Paseo 3, Paseo de Sta. Rosa,
Sta. Rosa City, Laguna
(632) 6800-6180 Manila line
(049) 541-1546
(049) 541-1795

CALAMBA
Ragasa Complex, National Road,
Parian, Calamba City, Laguna
(02) 420-8290 Manila line
(049) 545-5413
(049) 545-2276

LIPA
7 Bank of Commerce Bldg.
C.M. Recto Avenue Brgy. 9, Lipa City
(043) 756-2558 / (043) 756-4214
(043) 756-4214

BATANGAS-CAEDO
Calicanto, Batangas City
(043) 723-1410 / (043) 402-0231
(043) 723-6773 / (043) 402-0231

BATANGAS-P. BURGOS
No. 27 P. Burgos St.,
Batangas City
(043) 723-0909
(043) 723-0275
(043) 723-0279

CALAPAN
Leona Yap Ong Bldg., J.P. Rizal St.,
Calapan City, Oriental Mindoro
(043) 288-4496 / (043) 288-4031
(043) 288-4496

LEGASPI CITY
G/F Diabetes One-Stop Center
LANDCO Business Park, Legaspi City
(052) 820-6522 / (052) 480-6054

NAGA CITY
Romar-I Bldg., Elias Angeles St.,
Naga City
(632) 250-8093 Manila line
(054) 811-8931 Naga line
(054) 473-4080 Naga line

AREA 6-CENTRAL LUZON

ANGELES
McArthur Highway Corner B. Aquino St.
Lourdes Sur East, Angeles City
(045) 888-9269 / (045) 626-2010
(045) 323-4130 (fax)

BALIUAG
Victoria Bldg. Poblacion,
Baliuag, Bulacan
(044) 766-7701 / (044) 766-2022
(044) 766-2811 (fax)
(0923) 228-6273 (Mobile)

MALOLOS
Paseo del Congreso,
Malolos, Bulacan
(632) 299-8109 Manila line
(044) 791-0342 / (044) 791-2452

SAN FERNANDO
Insular Life Bldg., Mc Arthur Highway, Dolores,
City of San Fernando, Pampanga
(045) 961-1624 / (045) 961-1675
(045) 961-1680 (fax)

BALIBAGO
McArthur Highway, Corner Victor St.
Balibago, Angeles City
Pampanga
(045) 625-5586 / (045) 892-0875 / (045) 625-5770
(632) 246-8369 Manila line (fax)

SUBIC FREEPORT
Sampson, Corner Schley Sts.,
Subic Freeport Zone
(047) 252-1851 / (047) 252-1854
(047) 252-1857 / (047) 252-1863 (telefax)

IBA, ZAMBALES
TRB Bldg., Ramon Magsaysay Ave.,
Iba, Zambales
(047)811-1024 / (047) 604-1003
(047) 811-1025 (fax)

STA. CRUZ, ZAMBALES
National Road Corner Misola St.
Poblacion South, Sta.Cruz, Zambales
(047) 831-1113 / (047) 831-1803

TARLAC
G/F LP Bldg., F. Tanedo St.
San Nicolas, Tarlac City
(045) 982-5401 / (045) 982-5365
(045)982-4345 (fax)

AREA 7 - NORTH LUZON

CABANATUAN
V. P Bldg Maharlika Highway
Brgy. H. Concepcion
Cabanatuan City, Nueva Ecija
(044) 940-1254 / (044) 940-1257
(044) 329-0023 / (044) 940-1263 (fax)

CARMEN
Mc Arthur Highway,
Carmen, Rosales, Pangasinan
(075) 582-7370 / (075) 582-7365
(075) 582-3318 / (075) 582-7370 (fax)

DAGUPAN
A.B. Fernandez Ave. Corner Nable St.,
Dagupan City, Pangasinan
(075) 522-8691 / (075) 523-7363
(075) 523-3256 / (075) 522-8693

URDANETA
No.7 Alexander St.,
Urdaneta City, Pangasinan
(075) 656-2404 / (075) 568-8199
(075) 656-2034 (fax)

BAGUIO
G/F, YMCA Bldg,
Post Office Loop (Upper Session Road), Baguio City
(074) 619-0074 / (074) 619-0073
(074) 619-0072 (fax)

SAN FERNANDO-LA UNION
CAP Annex Bldg., Quezon Ave. Corner Gov. Luna Sts.,
San Fernando City, La Union
(072) 242-5683 to 85 / (072) 700-1618
(072) 242-5683 (fax)

CANDON
National Highway, Brgy. San Isidro
Candon City, Ilocos Sur
(077) 644-0288 / (077) 742-6025
(077) 742-6024 (fax)

VIGAN
Plaza Maestro Commercial Complex
Jacinto Corner Florentino Sts. Vigan City, Ilocos Sur
(077) 722-2119 / (077) 632-0152
(077) 632-0802 (fax)

BATAC
C.F. Daguio Bldg., Washington St.,
Brgy. 2 Ablan, Batac City, Ilocos Norte
(077) 792-3141 / (077) 617-1363
(077) 617-1603 (telefax)

TUGUEGARAO
Bonifacio Corner Washington Sts.,
Tuguegarao City, Cagayan
(078) 844-8041 / (078) 844-8042
(078) 844-8044 (fax)

AREA 8- EASTERN VISAYAS

CEBU- MAIN
Cebu Fuente Bldg.,
B. Rodriguez Corner Osmeña Blvd., Cebu City
(032) 253-1951 / (032) 2531953
(032) 255-4223 (fax)

CEBU-AYALA
8990 Negros St., Cebu Business Park,
Cebu City
(032) 415-5161 to 64
(032) 415-5165 (fax)

CEBU- BANILAD
G/F University of Cebu Bldg.,
Gov. Cuenco Ave.(Banilad Rd.), Cebu City
(032) 231-6704 to 05 / (032) 231-6706 (fax)

CEBU- JUAN LUNA
Plaridel Corner Juan Luna Sts.,
Cebu City
(032) 253-3030 / (032) 253-4174
(032) 253-3999 / (032) 255-2065 (fax)

CEBU- PASIL
Tupas St., Pasil, Cebu City
(032) 261-1597 to 98 / (032) 261-1599 (fax)

LAPU LAPU
Unit 3-5 AJS Bldg., Pusok,
Lapu-Lapu City
(032) 341-3854 to 56 / (032) 341-3855 (fax)

MANDAUE
Entienza Bldg., National Highway,
Mandaue City, Cebu
(032) 346-6901 to 03
(032) 346-1588 (fax)

ORMOC
Real St., Ormoc City
(053) 255-2306 / (053) 561-8523 / (053) 255-4366 (fax)

TAGBILARAN
G/F CAP Bldg., CPG North Avenue
Tagbilaran City
(038) 501-8987 / (038) 411-5400
(038) 411-3773 (fax)

AREA 9- WESTERN VISAYAS

BACOLOD-LACSON
12th St. Corner Lacson St.,
Bacolod City
(034) 433-4238 / (034) 434-1594
(032) 432-0457 / (034) 433-1139 (fax)

BACOLOD-ARANETA
Yusay Arcade,
Araneta St., Bacolod City
(034) 433-4669 / (034) 433-4667
(034) 433-4668 / (034) 433-2267 (fax)

KABANKALAN
Guanzon St., Kabankalan City,
Negros Occidental
(034) 471-2188 / (034) 471-2853
(034) 471-2253 (fax)

DUMAGUETE
G/F CAP Bldg., Rizal Ave.,
Poblacion, Dumaguete City
(035) 225-7668 / (035) 225-7667
(035) 225-7669 / (035) 422-6896
(035) 225-7670 (fax)

ESTANCIA
Clement St., Estancia, Iloilo
(033) 397-0222 / (033) 397-0221
(033) 397-0220 (fax)

ILOILO-IZNART
TCT Bldg., Iznart St., Iloilo City
(033) 335-0710 to 12
(033) 335-0713 (fax)

ILOILO-J.M. BASA
Iloilo TPW Corporation Bldg., J.M. Basa
Corner Mapa Sts., Iloilo City
(033) 337-9038 / (033) 337-8721
(033) 337-8662 / (033) 335-1020 (fax)

KALIBO
1280 Garcia Bldg. C. Laserna St.,
Kalibo, Aklan
(036) 262-5294 / (036) 268-9032
(036) 268-5210 (fax)

ROXAS CITY
Gaisano Arcade, Arnaldo Boulevard,
Roxas City
(036) 621-0845 / (036) 621-1487
(036) 621-5817 / (036) 621-1760 (fax)

AREA 10- MINDANAO

DAVAO- CITY HALL
Valgoson's Realty Bldg.,
City Hall Drive, Davao City
(082) 226-4075 / (082) 226-4074
(082) 226-3926 (fax)

DAVAO-RIZAL
CAP Dev. Center Bldg.,
Rizal St., Davao City
(082) 226-2223 / (082) 222-0904
(082) 226-2849 / (082) 226-2884 (fax)

DAVAO-STA. ANA
Maxima Siasu Bldg., R. Magsaysay Corner
Lizada Sts., Davao City
(082) 226-2859 / (082) 227-5235
(082) 222-4953 (fax)

CAGAYAN DE ORO-VELEZ
Don A. Velez Corner Akut Sts.,
Cagayan de Oro City
(088) 856-4123 / (08822) 726-870
(088) 856-4371 (fax)

CAGAYAN DE ORO-LAPASAN
Suite 6 and 7, Gateway Tower 1,
LimKetKai Center, Cagayan de Oro City
(088) 856-3992 / (088) 856-3991
(08822) 727-731
(088) 856-3977 (fax)

BUTUAN
G/F, Cesia Bldg. Montilla Blvd.
Butuan City, Agusan del Norte
(085) 342-9320 / (085) 342-9321
(085) 342-6248 (fax)

GENERAL SANTOS
G/F, Sunshine Hardware Bldg.,
Santiago Blvd., General Santos City
(083) 552-9375 / (083) 552-5137
(083) 552-5236 (telefax)

MARAMAG
TRB Bldg., Sayre Highway,
Poblacion, Maramag, Bukidnon
(088) 356-1399 / (088) 238-5252
(088) 356-1398 (fax)

ZAMBOANGA-VETERANS
Veterans Avenue Corner Camanchile Drive,
Zamboanga City
(062) 991-2982 / (062) 991-2381
(062) 991-2980 (fax)

ZAMBOANGA-M. JALDON
Grand Astoria Hotel Bldg.
Mayor Jaldon St., Zamboanga City
(062) 991-0720 / (062) 991-2321 (fax)

SENIOR OFFICERS

Antonio O. Cojuangco
Chairman of the Board
Office of the Chairman

Raul B. de Mesa
President/Chief Executive Officer
Office of the President/CEO

Executive Vice Presidents
Carmelita R. Araneta
Sector Head
Operations Sector

Arturo E. Manuel , Jr.
Sector Head
Executive Support Sector
Credit Sector (Concurrent)

Senior Vice Presidents
Phebe F. Cabildo
Sector Head
Branch Banking Metro Manila Sector

Rodelio A. Cayetano
Chief Technology Officer
Technology Management Group

Angelica H. Lavares
Sector Head
Strategic Support Services Sector

Manuel L. Manalastas
Sector Head
Branch Banking Countryside Sector

Paterno B. Nogoy, Jr.
Group Head
Branch Operations Group

Felipe Martin F. Timbol
Sector Head
Treasury Management Sector

First Vice Presidents
Augusto C. Agustin
Area Head
Branch Banking Area VI

Susan R. Alcala-Uranza
Group Head
Human Resource Management & Development Group

Edwin T. Amahan
Area Head
Branch Banking Area VIII

Numeriano Manuel V. Amparo
Group Head
Transaction Banking Group

Liberty S. Basilio
Group Head
Corporate Banking Group III

Bernadette C. Basobas
Area Head
Branch Banking Area IV

Isabelita S. Del Carmen
Area Head
Branch Banking Area I

Freddie M. Domingo
Group Head
Credit Policy Supervision Group

Maximo V. Estrada
Group Head
Acquired Assets Management Group

Alfonso T. Garcia, Jr.
Area Head
Branch Banking Area IX

Jovencio R. Navarro, Jr.
Area Head
Branch Banking Area II

Romeo Vittorio D. Pascual
Group Head
Rural Banking Group

William P. Sotto
Sector Head
Account Management Sector

Allee Lourdes T. Sun
Group Head
Corporate Banking Group IV

Edward Dennis J. Zshornack
Chief Risk Officer
Risk Management Group

Vice Presidents
Edgar R. Anabo
Group Head
Strategic Planning Group

Delta A. Audencial
Group Head
Trust Services Group

Ma. Eleanor Christina S. Castañeda
Group Head
Consumer Lending Group

Noel M. Cortez
Group Head
Corporate & Product Marketing Group

Marissa B. Espino
Group Head
Legal Mgt Services Group

Alejandro Anton B. Gaerlan
Group Head
Foreign Exchange Trading Group

Chona C. Lacson
Area Head
Branch Banking Area III

Prospero, C. Noble Jr.
Group Head
Security Group

Ma. Salome V. Panzo
Compliance Officer
Compliance Office

Paul John T. Reyes
Group Head
Interest Rate Trading Group

Napoleon C. Valeriano
Area Head
Branch Banking Area VII

Miriam C. Veloira
Group Head
Internal Audit Group

Ma. Teresa L. Zamora
Group Head
Treasury Marketing & Sales Group

Assistant Vice Presidents
Medallon R. Abrena
Department Head
Business Systems Department

Cristina T. Ang Dy Pay
Business Manager
Del Monte Branch

Lourdes V. Arriola
Business Manager
Malabon I Branch

Victoria P. Bagaporo
Business Manager
Zamboanga I - Veterans Branch

Leilani G. Bañes
Business Manager
Pasay Road Branch

Georgina M. Borcelis
Business Manager
Kamuning Branch

Alfredo G. Bumagat, Jr.
Department Head
Product Management Department

Andrew D. Cajucom
Department Head
Credit Card Department

Concepcion C. Caparas
Account Officer
Corporate Banking Group II

Marion P. Capati
Business Manager
Commonwealth Branch

Joachim T. Capino
Account Officer
Corporate Banking Group IV

Myrna P. Chua
Business Manager
Elcano-Binondo Branch

Ma. Luisa T. Clutario
Business Manager
Greenhills Branch

George E. Consul
Business Manager
Concepcion Branch

Roy L. Damole
Business Manager
Cebu-Mandaue Branch

Aurora R. Del Rosario
Business Manager
West Triangle Branch

Jose Manuel G. Diaz
Group Head
Liquidity and Balance Sheet Management Group

Teodoro Q. Donato III
Business Manager
Paseo de Roxas Branch

Maria Victoria R. Gallardo
Department Head
Corporate & Institutional Sales Department

Lucila R. Gumabao
Business Manager
Pasig Branch

Dante A. Ilas
Head
Branch Operations Support

Jocelyn Isabel S. Legaspi
Department Head
Legal Mgt Services Group - Documentation

Emma L. Lim Lo Suy
Business Manager
Cagayan de Oro-Velez Branch

Modesto F. Mapa
Department Head
Recruitment and Placement Department

Arturo Gerard T. Medrano III
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Acquired Assets Management Group

Daniel V. Montano
Head
Branch Operations Control

Anna May B. Nieva
Group Head
Corporate Banking Group V

Roberto R. Noceda
Group Head
Corporate Banking Group I

Leonila S. Ochangco
Business Manager
Alabang Branch

Imelda S. Padilla
Controller and Group Head
Controllership Group

Roberto C. Paz
Area Head
Branch Banking Area V

Florence Y. Pe Benito
Business Manager
Cebu - Main Branch

Pia Marie V. Ramos
Business Manager
Rockwell Branch

Belen T. Ramos
Business Manager
Soler Branch

Dinna P. Remo
Business Manager
Batangas II-P.Burgos Branch

Arnel S. Roxas
Department Head
Swaps Trading Department

Kelwin S. Salvador
Business Manager
Grace Park Branch

Godofredo I. Tapawan, Jr.
Department Head
Computer Center Management Dept.

John Philip P. Te
Department Head
Investments Trading Department

Marie Antoinette G. Teves
Business Manager
Main Office Branch

Patrik Konrad P. Ticzon
Area Head
Branch Banking Area X

Rizaldy D. Tolentino
Group Head
Corporate Banking Group II

Ferdinand C. Valera
Group Head
Domestic Operations Services Group

Conrado Alberto G. Vasquez III
Department Head
Business Development Department

Lydia E. Virtusio
Department Head
Investments & Portfolio Management Dept.

Aiveth D. Yuseco
Department Head
Cash Management Sales & Implementation Dept.