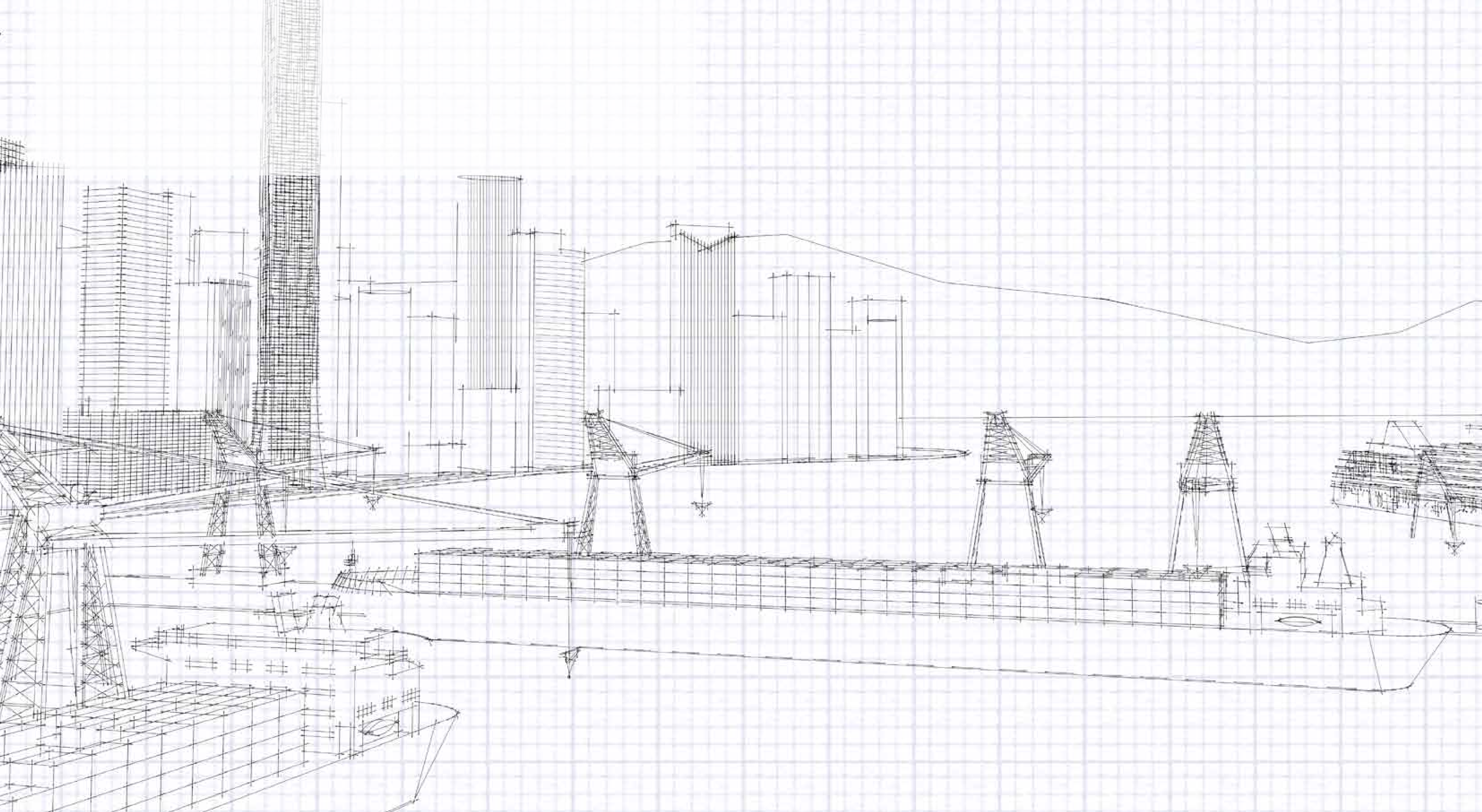
Contents

Every dream needs a plan.
Every vision needs a blueprint.

At Bank of Commerce, we envision building a better nation.

By serving Filipino families and corporations, we do our part in nation building, one Banking transaction at a time.

And just as a blueprint is only the beginning of a grand building, this vision is the strength of our foundation.



Mission and Credo

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 thought, 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 with 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 value BC Banker.

Our Mission

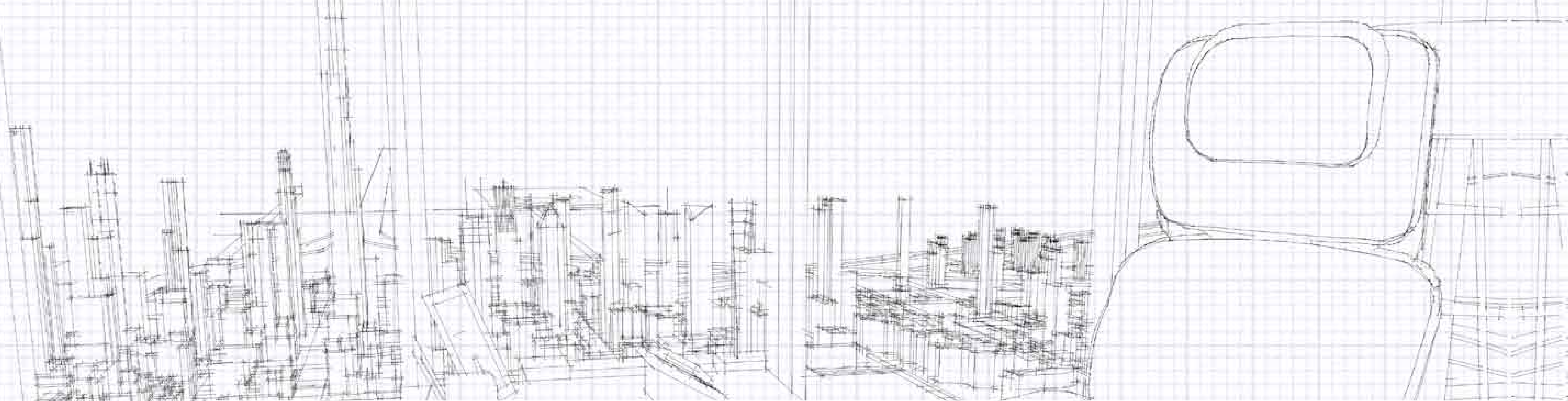
Our business is professional banking, we are committed to serve and satisfy the needs and best interests of the public: our clients, our co-workers, our stockholders, and our community.

As banking is based on trust, we will do business with the highest standards of personal integrity and service quality.

We believe strongly 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.



Letter to Stockholders

Dear Fellow Stockholders,

We are pleased with the performance of the team and the results Bank of Commerce delivered despite the many challenges faced in 2010. Audited results for the year compared to 2009 (as re-stated) showed respectable progress on key measures of financial strength, to wit:

- Net Income after Tax increased by 2% from P 617.34 mln in 2009 (as re-stated) to P 629.17 mln in 2010. Net Income could have more than doubled had we not taken a charge against earnings amounting to approximately P 861 mln representing credit reserves to cover potential loan losses from legacy assets.

- Income from Banking Operations was a record P 2.15 bln, a 22% increase over the comparable figure for 2009 (as re-stated). The improvement was largely driven by strong results from our Market Business which took full advantage of the financial markets volatility hence delivering excellent performance in interest rate, currency, funding and investment trades. We have likewise begun to liquidate legacy Structured Investments on an opportunistic but purposeful basis taking benefit from market improvements hence limiting downside to the bank. It is our intention to fully exit our inventory of Structured Investments, as and when the opportunity arises.

- Our cost efficiency ratio improved from 77% to 73%. Evidently, business growth is complemented by the cost control discipline of our managers. Notably, our corporate overhead could have been P 285 mln higher today if the bank was running at the same cost per Peso of revenue in 2009 (as re-stated). It is not our intention to cut cost at the expense of revenues. However, we will purposely spend wisely.

The financial results evidence the progress made in enhancing shareholder value at Bank of Commerce. Our newly reconstituted Senior Executive Team set about the work of reassessing governance processes and controls and began taking action on key functions identified as requiring immediate enhancement particularly in the areas covering back-room operations, risk and sustainable loan-loss reserve management. These initiatives led to the implementation of the following: i) revised Table of Organization effective October 1, 2010, ii) Wage Rationalization Program completed in Dec. 31, 2010 and iii) Two (2) year IT Transformation Project, amongst others.

Our strategic course in 2011 is very clear. The top priority is to maintain our record of delivering profitable financial performance on an improved asset quality base. To do this, we need to sustain the momentum in our Market Business, Risk Management, complete the transformation of Client Coverage and Credit Evaluation, and equip Retail Banking with enhanced front and back office support.

It was a challenging year for the bank as a whole. Both the corporate and retail markets remained highly competitive characterized by reduced margins and fees. As an institution, we faced high credit costs in 2010 given our decision to aggressively provide P 861 mln for potential loan-related losses. It is expected that we will need to be equally aggressive in further building up our credit reserves in 2011. Having said above, we expect to reap the benefits of the strategy as we move forward with a healthy and robust financial condition. 2011 will be a year in which business growth will be based on quality.

We will increase the growth potential of Retail Banking by diversifying its business by customer base, product lines, and geographic location. We will expand our delivery channels allowing customers to transact and experience Bank of Commerce conveniently and safely.

Across the institution, we will continue to execute our growth ambitions by primarily building on our strategic business partnership with the San Miguel Group. We will likewise consider inorganic growth opportunities as and when they arise.

We have strengthened our risk and capital management systems by re-organizing the Risk Management Division to include a dedicated Capital Management Department. In our recent Internal Capital Adequacy Assessment Process (ICAAP) presentation and dialogue with the Bangko Sentral ng Pilipinas (BSP), the regulators noted well articulated strategic initiatives and the corresponding risk management and capital planning that will support these initiatives. The BSP likewise noted the risk management and capital measurement frameworks that have been adopted. We will continue to enhance these frameworks to ensure an environment for rigorous risk and capital assessment exists.

We cannot underestimate the challenges before us. We have a tough job ahead. We, however, are excited about the opportunities and are confident in our ability to make the most of them.

With your unwavering support, we will propel Bank of Commerce towards greater heights in the year ahead.

Raul B. de Mesa
Chairman of the Board

Virgilio Martin Z. Goquingco
President and CEO

Board of Directors

Reynaldo G. David*
Director

Roman Felipe S. Reyes
Director

Rafael E. Evangelista
Director

Raul Ch. Rabe
Director

Jose T. Pardo
Director

Francis C. Chua
Director

Virgilio Z. Goquingco
Director/President/CEO

Raul B. de Mesa
Chairman

Jeronimo U. Kilayko
Vice Chairman

Evita C. Caballa
Director/
Corporate Secretary

Faustino F. Galang
Director

Amor C. Iliscupidez
Director

Geoffrey M. Martinez
Director

Marito L. Platon
Director

Sergio G. Edeza
Board Advisor

Ferdinand K. Constantino
Board Advisor

Vicente Panlilio**
Director

* Not in photo
** Elected as of April 19, 2011.

Raul B. De Mesa
Chairman of the Board, Member of the Nomination, Compensation and Remuneration Committee, President and CEO up to April 30, 2010 and Vice Chairman of the Executive Committee and Director of Bancommerce Investment Corp.

Jeronimo U. Kilayko
Vice Chairman of the Board, Chairman of the Executive Committee and Member of the Board Risk Oversight Committee

Virgilio Martin Z. Goquingco
President and Chief Executive Officer, Member of the Executive Committee, Member of the Board Risk Oversight Committee and Member of the Trust and Investment Committee

Evita C. Caballa
Corporate Secretary and Director, and Member of the Audit Committee

Francis C. Chua
Director, Member of the Executive Committee and Member of the Board Risk Oversight Committee

Rafael E. Evangelista
Director and Member of the Corporate Governance Committee

Faustino F. Galang
Director, Member of the Board Risk Oversight Committee, and Member of the Nomination, Compensation and Remuneration Committee

Amor C. Iliscupidez
Director, Member of the Executive Committee, Member of the Trust and Investment Committee and Chairman of the Nomination, Compensation and Remuneration Committee

Geoffrey M. Martinez
Director and Member of the Nomination, Compensation and Remuneration Committee

Jose T. Pardo
Director, Chairman of the Trust and Investment Committee and Chairman of the Corporate Governance Committee

Marito L. Platon
Director, Member of the Audit Committee, and Member of the Corporate Governance Committee

Raul Ch. Rabe
Director and Member of the Audit Committee

Roman Felipe S. Reyes
Director and Chairman of the Audit Committee

Vicente L. Panlilio
Director and Chairman of the Board Risk Oversight and Member of the Trust and Investment Committee

Reynaldo G. David
Director and Member of the Audit Committee and Member of the Nomination, Compensation and Remuneration Committee

Sergio G. Edeza
Board Advisor

Ferdinand K. Constantino
Board Advisor

Senior Executive Team

Carmelita R. Araneta
EVP Operations Support Group

Jose L. Camus
EVP Retail Banking Group

Virgilio Z. Goquingco
President/CEO

Arturo E. Manuel Jr.
EVP Services Support Group

Alfredo J. Bautista
FVP Strategic Planning and Business System

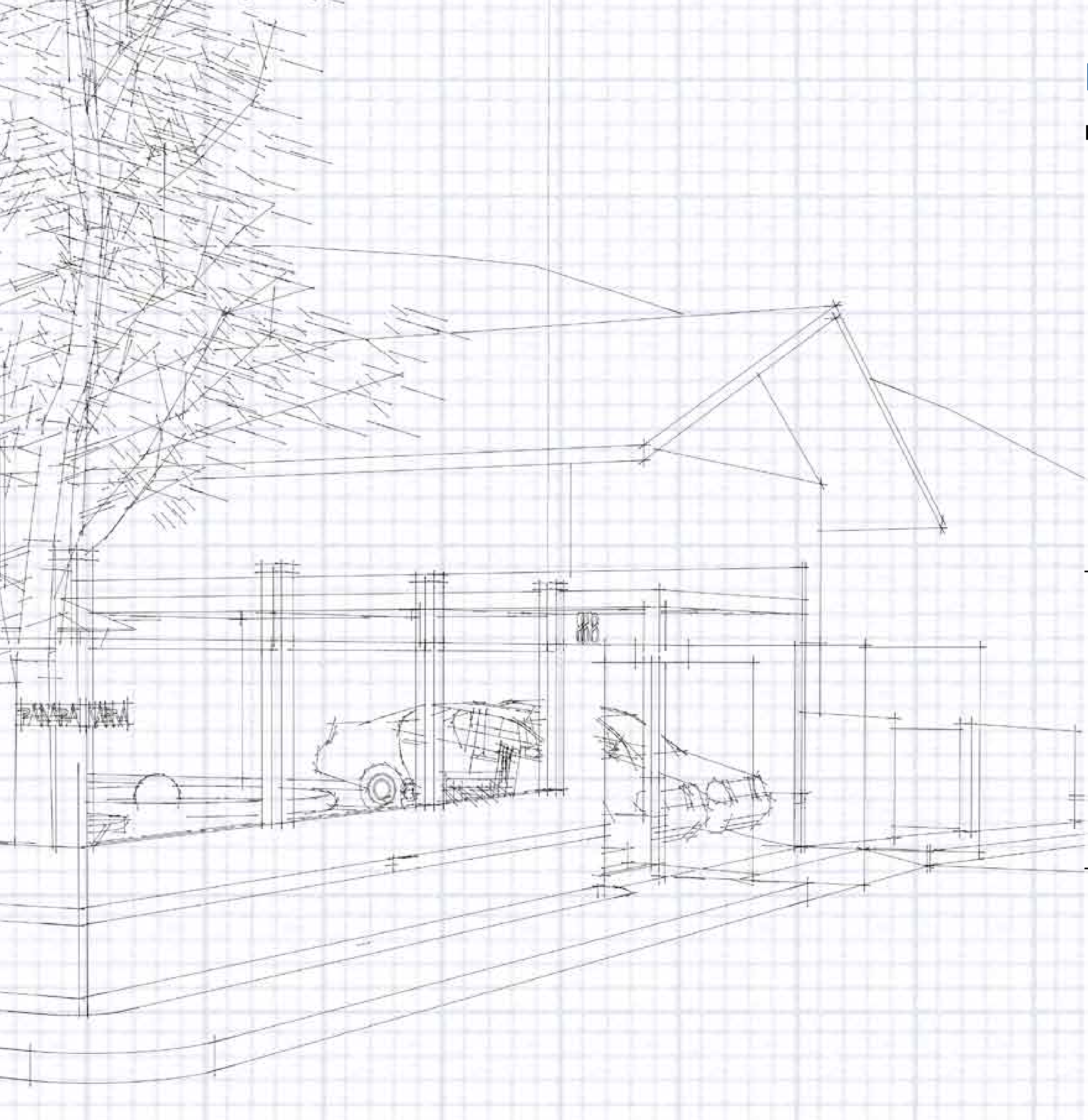
Agerico S. Verzola
FVP Client Coverage and Management Division

Serafin A. Fule Jr.
FVP Compliance Office

Angelica H. Lavares
EVP Strategic Support Group

Felipe Martin F. Timbol
SVP Treasury Management Group

Edward J. Zshornack
FVP Risk Management Division



Improving lives through our Products and Services

From helping you build your first home to helping your children build their own homes, we take pleasure in watching your family grow and succeed in life.

Products & Services

Deposit Products

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

Treasury Products

- Fixed Income
- Treasury Bills
- Fixed Rate Treasury Notes
- Retail Treasury Bonds
- Republic of the Philippines Bonds
- Corporate Notes
- Foreign Exchange
- Spot FX Conversion
- Forward FX Conversion

Trust Products and Services

- Investment Management Account
- Personal Trust
- Escrow
- Retirement Fund
- Unit Investment Trust Fund
- Loan Agency
- Collateral Trusteeship
- Safekeeping

Business Loans

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

Consumer Loans

- Home Loan
- Car Loan
- Personal Loan
- Salary Loan
- Credit Cards

Cash Management Services

- Value Payroll
- Payroll Plus*
- Checkwriter Plus*
- Deposit Pick-Up
- Bills Payment
- Pass 5 / Customs Duties Tax Payment
- Bancnet
  - Point-of-Sale (POS)
  - Bills Payment
  - eMerchant*
  - BIR - EFPS (Electronic Filing & Tax Payment System) *

Non-Branch Delivery Channels

- bCommerce Internet Banking
  - Retail
  - Corporate
- Automated Teller Machines
- Mobile Banking through Bancnet*

*Available soon

Corporate Governance

The Philippine Securities & Exchange Commission (SEC) approved on April 8, 2010 the increase in the authorized Capital Stock of Bank of Commerce. From PhP 6 bln, its authorized capital has now been increased to PhP 22 bln consisting of 212,500,000 common and 7,500,000 preferred shares both with a par value of PhP 100.00 each.

This increase was approved by a majority of Bank of Commerce's Board of Directors on February 17, 2009 and November 17, 2009, and by the vote of the stockholders owning or representing at least two-thirds of the outstanding capital stock at a meeting held on November 17, 2009 and November 26, 2009.

Adoption of the Revised Manual on Corporate Governance

In compliance with Securities and Exchange Commission (SEC) Memorandum Circular No. 6 Series of 2009, Bank of Commerce adopted a Revised Manual on Corporate Governance on March 16, 2010.

The Bank's Code of Corporate Governance complies with the promulgated rules embodied in the General Banking Act of 2000. More importantly, it manifests the Board of Directors' commitment to prudently manage the Bank, thus preserving the trust and confidence of its various stakeholders.

Board Governance

The Board of Directors (the Board) is primarily responsible for the sound governance of the Bank. Corollary to setting the policies for accomplishing its corporate objectives, it provides an independent check on Management.

Board Issues – Accountability, responsibilities, duties and functions of the Board, Internal Control Responsibilities, election, orientation and training, access to Senior Management & Information, disclosure of Directors' biographical information, multiple board seats, The Chairman and Chief Executive Office and Composition.

Directors

We believe that a director's office is one of trust and confidence. A director should act in the best interest of the Bank in a manner characterized by transparency, accountability and fairness. He should also exercise leadership, prudence and integrity in directing the Bank towards sustained progress.

The members of the Board, all elected by the stockholders, are composed of fifteen (15) qualified individuals with diverse experiences, backgrounds and perspectives. The Board includes at least two (2) independent directors. As defined in the General Banking Law of 2000, independent directors are persons who are not officers of the Bank or other individuals having relationships with the Bank that may interfere with the exercise of their independent judgment in carrying out their responsibilities as directors The membership of the Board is a combination of executive and non-executive directors, and no director or small group of directors dominates the decision-making process. The non-executive directors possess such qualifications and stature that enable them to effectively participate in the deliberations of the Board.

Board Committees

The Board constituted the following committees to assist it in good corporate governance: Executive Committee, Audit Committee, Board Risk Oversight Committee, Corporate Governance Committee, Anti-Money Laundering Committee, Nominations, Compensation and Remuneration Committee, and Trust & Investment Committee. The revised charters of these Board Committees were approved last January 18, 2011 while the revised charters of the Bank's Management Committees were approved by the Board last October 19, 2010.

The Corporate Secretary

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

The Compliance Officer

The Board appointed a Compliance Officer who reports to the Board of Directors through the Corporate Governance Committee. He monitors the Bank's compliance with banking laws and the rules and regulations of the regulatory agencies. If any violations are found, the matter is reported to the appropriate level of management or to the Board with appropriate recommendations for adoption of measures to prevent recurrence and needed disciplinary action.

Board Performance and Evaluation

The Board holds regular monthly meetings to enable directors to discharge their responsibilities. Special meetings are also held from time to time as the need arises. In 2010, the Board held 14 meetings. In addition to the Board meetings, the directors attend their respective Board Committee meetings to which they are members of.

The Board has instituted and adopted an internal rating system of its performance consisting of self-rating, peer rating and rating of members by the Corporate Governance Committee.

Adequate and Timely Information

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

Financial Reporting, Controls & Audit

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

Stockholders' Right & Protection of Minority Stockholders' Interests

The Board respects the rights of the stockholders as provided for in the Corporation Code and encourages them to: vote on all matters that require their consent or approval; exercise their pre-emptive right to all stock issuances of the Bank, inspect the Bank's books and records, and access information on dividends and appraisal right.

Stakeholders

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

Code of Ethics and Standards

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

Risk Management and Capital Adequacy

Risk Management

Bank of Commerce considers the understanding and the management of risk as a key part of its business strategy.

The Bank in 2010 strengthened its Risk Management Infrastructure to meet the requirements of its business.

Risk Management Oversight

The Board of Directors is the sole arbiter of the risks taken by the organization. It has the sole discretion to determine what manner (strategic direction) and magnitude (risk appetite) of risk is suitable for the organization. The Board of Directors develops both the strategic direction and the risk appetite based on the information provided by management.

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

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

The Risk Management Division implements the risk management directives of the Board and the BROC by:

- Formulating and recommending policies to manage market, asset, liability, credit and operational risks arising from the business of the bank;
- Seeking up the risk management framework approved by the Board of Directors;
- Actively promoting a culture of risk awareness and risk management and;
- Overseeing the adequacy of the Bank's capital in absorbing the risks present in the Bank's business.

The Risk Management Division reports to the Board through the BROC, independently of the business. It is comprised of the following departments:

Credit Risk Management

The Credit Risk Management Department (CRM) formulates and recommends policies to manage the credit risk present in the asset portfolios of the Bank. It is responsible for the development of credit risk measurement models, and leads the validation of credit risk rating systems employed by the Bank. CRM recommends portfolio limits and monitors and reports credit exposure against these limits to the BROC.

Market and Asset Liability Risk Management

The Market and Asset Liability Risk Management Department (MRM) of the bank oversees the identification, assessment, monitoring and controlling of market and liquidity risks. It is responsible for recommending market risk and liquidity risk management policies, setting uniform standards of risk assessment and capital consumption. MRM provides senior management with risk assessments of treasury managed assets as well as the liquidity profile of the bank. MRM also analyses exceptions to set market and liquidity risk limits.

Operational Risk Management

Operational Risk Management Department (ORM) monitors the adequacy and effectiveness of the systems of internal control to ensure that the systems minimize operational risks and identify exposure while the consequences are still avoidable. ORM provides effective assessment of inherent general and functional risks to ensure the operational soundness of the organization and its ongoing operations. ORM also assists line units to improve the operational and systems risks management process of the organization.

Capital Management

Bank of Commerce recognizes capital adequacy as the basis for institutional strength.

The Bank maintains a capital adequacy ratio that is in excess of the ten percent requirement of Philippine Banking Regulations.

The proper management of capital within the strategic direction of the bank is the commitment of the bank's management to its stakeholders. The Board of Directors instructed the integration of the Internal Capital Adequacy Assessment Process (ICAAP) into the organization. This process enables the bank to properly understand the risks implicit in its strategic plans but also to assess how much capital is required for withstanding these risks. Integrating the ICAAP process into the organization creates a culture of collective responsibility and accountability to preserve and maximize the value of invested capital.

The ICAAP Steering Committee is responsible for overseeing the development of the assessment process and for monitoring implementation and integration of the ICAAP into the corporate culture.

The results of the internal assessment reveal that the bank has qualified capital that exceeds requirements.

Essential to the ICAAP Process is the Capital Management Department (CAP). Its serves as the control unit of the Bank for the management of its capital base. It acts as the clearing unit for matters relating to the management of capital taken up both by the ICAAP Steering Committee and by the BROC.

CAP oversees the processes of regulatory and internal capital adequacy assessment to determine whether the Bank's capital base covers identified material risks. It continuously coordinates with other units to refine, develop and maintain the Bank's Internal Capital Adequacy Assessment Process (ICAAP).

Business Continuity Plan

The Bank has, as one of its measures to mitigate risk, established an institution-wide Business Continuity Plan (BCP). In the past years, the BCP has been successfully tested and implemented, as in the case of the Typhoons Ondoy and Pepeng in 2009.

As the bank has already planned its growth targets amidst challenging times ahead, our BCP must continually be enhanced and updated. Recently, the Business Continuity Team was re-organized and is now composed of senior officers from cross-functional areas in the bank. Likewise, three (3) members from the Business Continuity Team attended the Business Continuity Management (BCM) Practitioner workshop to understand the global trends and best practices on BCM and gain insights on implementing a successful BCM for our Bank.

In revisiting and updating the BCP Manual, the bank will align its BCP with the British Standard for BCM under the BS 25999 and the BS 25777 on IT Service Continuity. As such, the BCP Team is currently analyzing critical activities and their corresponding risk measurement through the review and update of the Business Impact Analysis and Risk Assessment of all units.

Moreover, our business recovery site (BRS) was transferred to a new strategic location, which can support our requirements. As required by BSP, the BCP Team is scheduled to conduct a bank wide testing of the BCP within this year.

FINANCIAL STATEMENTS

KPMG
cutting through complexity™

Manabat Sanagustin & Co., CPAs

REPORT OF INDEPENDENT AUDITORS

The Stockholders and the Board of Directors
Bank of Commerce

Report on the Financial Statements

We have audited the accompanying financial statements of Bank of Commerce (the "Bank"), which comprise the statements of financial position as of December 31, 2010 and 2009, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 P1.3 billion and P1.4 billion as of December 31, 2010 and 2009, respectively.

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 P1.9 billion and P2.0 billion as of December 31, 2010 and 2009, respectively, and net income would have increased by P159.3 million in 2010 and P189.4 million in 2009.

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 P3.2 billion and P3.4 billion as of December 31, 2010 and 2009, respectively, and net income would have increased by P159.3 million in 2010 and P189.4 million in 2009.

Qualified Opinion

In our opinion, except for the effects on the financial statements of the matters discussed under Bases for Qualified Opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bank of Commerce as of December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with PFRS.

Other Matter

In addition to the two matters of qualification as discussed under Bases for Qualified Opinion, our opinion on the 2009 financial statements dated March 16, 2010 was qualified because the Bank did not fully recognize the required additional impairment and credit losses on the Bank's financial and non-financial assets amounting to P892.3 million as of December 31, 2009. As discussed in Note 37 to the financial statements, the Bank has restated its 2009 financial statements and recognized the additional impairment and credit losses as required under PFRS.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 38 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statement. In our opinion, except for the effect on the information of the matter described in the Bases for Qualified Opinion paragraph, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Manabat Sanagustin & Co., CPAs

MANABAT SANAGUSTIN & CO., CPAs

March 15, 2011
Makati City, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Bank of Commerce (the "Bank"), is responsible for all information and representations contained in the financial statements for the years ended December 31, 2010 and 2009. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards, except for the matter of qualifications specified and discussed in the audit report of the Bank's independent auditors dated March 15, 2011, and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and all existing liabilities are recognized. The Management likewise discloses to the Bank's Audit Committee and to its independent auditors: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls. The Board of Directors reviews the financial statements before such statements are approved and issued.

Manabat Sanagustin & Co. CPAs, the independent auditors duly appointed by the Board of Directors and Stockholders of the Bank for the audit of the Bank's financial statements as of and for the years ended December 31, 2010 and 2009, has examined the financial statements of the Bank in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and Stockholders dated March 15, 2011.

Signed under oath by the following:

RAUL B. DE MESA
Chairman of the Board

VIRGILIO MARTIN Z. GOQUINGCO
President/Chief Executive Officer

FELIPE MARTIN F. TIMBOL
Treasurer

March 15, 2011

BANK OF COMMERCE
STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2010	December 31, 2009 (As Restated - see Note 37)	January 1, 2009 (As Restated - see Note 37)
ASSETS				
Cash and Other Cash Items	*16*	**P959,133,794**	P862,601,315	P887,541,945
Due from Bangko Sentral ng Pilipinas	*16*	**8,721,630,799**	8,503,131,565	6,993,152,154
Due from Other Banks		**8,813,952,998**	1,651,638,376	863,884,580
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	*7*	**15,582,326,720**	13,354,879,107	5,943,512,365
Financial Assets at Fair Value through Profit or Loss	*8, 36*	**287,875,167**	1,039,134,250	209,530,202
Available-for-Sale Securities - net	*9, 36*	**14,759,389,737**	14,394,780,734	9,809,559,131
Held-to-Maturity Investments	*9, 36*	**10,144,625,377**	10,791,402,227	11,384,324,043
Loans and Receivables - net	*10, 33, 36*	**35,872,573,654**	41,866,375,503	47,088,962,751
Investment in an Associate	*11*	**63,533,736**	66,704,303	70,287,958
Property and Equipment - net	*12*			
At cost		**628,455,239**	556,218,996	500,505,509
At appraised values		**1,139,821,428**	807,840,014	848,026,819
Investment Properties - net	*13*	**3,653,903,978**	4,054,226,112	4,155,904,839
Other Assets - net	*14*	**5,266,612,645**	5,180,519,866	5,429,832,434
		P105,893,835,272	P103,129,452,368	P94,185,024,730
LIABILITIES AND EQUITY				
Deposit Liabilities	*16, 33*			
Demand		**P13,776,291,298**	P11,499,045,054	P8,266,601,905
Savings		**37,549,963,027**	47,685,734,337	46,340,069,339
Time		**35,862,044,496**	27,631,207,328	23,269,471,594
		87,188,298,821	86,815,986,719	77,876,142,838
Financial Liabilities at Fair Value through Profit or Loss	*8*	**414,299,603**	1,351,925,027	1,950,165,045
Bills Payable and Securities Sold Under Repurchase Agreements	*17*	**1,942,938,696**	2,861,031,205	6,459,637,644
Manager's Checks and Acceptances Payable		**254,938,504**	364,242,754	234,607,694
Accrued Interest, Taxes and Other Expenses	*18, 27*	**670,363,546**	739,555,260	886,323,672
Subordinated Debt	*19*	**299,059,132**	1,495,144,535	1,490,343,725
Other Liabilities	*20*	**2,656,718,497**	2,760,211,493	2,929,264,256
Total Liabilities		**93,426,616,799**	96,388,096,993	91,826,484,874
Equity				
Capital stock	*20, 22*	**8,620,462,350**	5,211,444,140	2,915,888,800
Paid-in surplus		**6,833,806,556**	4,326,809,599	2,373,956,331
Deposit for future stock subscriptions		**-**	-	500,769,600
Surplus reserves	*23*	**125,680,876**	102,302,856	102,302,856
Deficit		**(2,736,353,340)**	(3,338,041,069)	(3,796,207,451)
Revaluation increment on property		**86,838,924**	206,151,950	217,837,552
Cumulative translation adjustment	*2*	**11,079,097**	37,971,506	27,168,771
Net unrealized gains (losses) on available-for-sale securities		**(474,295,990)**	194,716,393	16,823,397
Total Equity		**12,467,218,473**	6,741,355,375	2,358,539,856
		P105,893,835,272	P103,129,452,368	P94,185,024,730

See Notes to the Financial Statements.

BANK OF COMMERCE
STATEMENTS OF INCOME

	Note	Years Ended December 31 2010	2009 (As Restated - see Note 37)
INTEREST INCOME			
Loans and receivables	*10, 33*	**P3,533,128,066**	P4,857,608,910
Trading and investment securities	*24*	**1,475,642,808**	1,334,015,207
Interbank loans receivable and securities purchased under resale agreements	*7*	**222,549,025**	257,773,298
Due from Bangko Sentral ng Pilipinas and other banks		**337,978,513**	225,461,578
Others	*20*	**34,016,077**	31,937,749
		5,603,314,489	6,706,796,742
INTEREST EXPENSE			
Deposit liabilities	*16, 33*	**2,019,817,921**	3,036,591,442
Bills payable and other borrowings	*17, 19*	**270,091,765**	451,563,709
		2,289,909,686	3,488,155,151
NET INTEREST INCOME		**3,313,404,803**	3,218,641,591
OTHER INCOME			
Trading and investment securities gains - net	*26*	**860,598,368**	1,095,057,318
Foreign exchange gains - net		**739,372,068**	19,667,580
Service charges, fees and commissions - net	*25*	**335,859,739**	347,351,245
Gains on foreclosure or sale of repossessed assets - net	*13*	**167,297,044**	261,766,031
Miscellaneous	*9, 11, 28, 33*	**44,965,959**	39,010,930
		2,148,093,178	1,762,853,104
OTHER EXPENSES			
Impairment losses	*15, 34*	**1,184,145,020**	1,152,936,106
Compensation and fringe benefits	*27, 33*	**1,070,165,321**	821,568,463
Rent and utilities	*28*	**584,494,244**	491,046,549
Taxes and licenses	*30*	**576,410,018**	591,319,963
Depreciation and amortization	*12, 13*	**228,099,070**	234,321,078
Amortization of software costs	*14*	**40,173,829**	35,992,648
Miscellaneous	*29*	**895,214,633**	816,498,676
		4,578,702,135	4,143,683,483
INCOME BEFORE INCOME TAX EXPENSE		**882,795,846**	837,811,212
INCOME TAX EXPENSE	*30*	**253,626,264**	220,470,263
NET INCOME		**P629,169,582**	P617,340,949

See Notes to the Financial Statements.

BANK OF COMMERCE
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31 2010	2009 (As Restated - see Note 37)
NET INCOME	**P629,169,582**	P617,340,949
OTHER COMPREHENSIVE INCOME		
Translation adjustments	**(26,892,409)**	10,802,735
Net change in fair value of available-for-sale securities	**(669,012,383)**	177,892,996
	(695,904,792)	188,695,731
TOTAL COMPREHENSIVE INCOME (LOSS)	**(P66,735,210)**	P806,036,680

See Notes to the Financial Statements.

BANK OF COMMERCE
STATEMENTS OF CHANGES IN EQUITY

Years Ended December 31

	Note	Capital Stock (Note 22)	Paid-in Surplus (Note 22)	Deposit For Future Stock Subscriptions (Note 22)	Surplus Reserves (As Restated - see Notes 23 and 37)	Deficit (As Restated - see Note 37)	Revaluation Increment on Property	Cumulative Translation Adjustment (Note 2)	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Total Equity
Balance as of December 31, 2009, as previously reported		P5,211,444,140	P4,326,809,599	P -	P158,302,856	(P2,501,714,304)	P206,151,950	P37,971,506	P194,716,393	P7,633,682,140
Prior period adjustments	37	-	-	-	(56,000,000)	(836,326,765)	-	-	-	(892,326,765)
Balance as of December 31, 2009, as restated		5,211,444,140	4,326,809,599	-	102,302,856	(3,338,041,069)	206,151,950	37,971,506	194,716,393	6,741,355,375
Changes in fair value of available-for-sale (AFS) securities		-	-	-	-	-	-	-	-	-
Changes in fair value of AFS investments taken to profit/loss		-	-	-	-	-	-	-	(669,012,383)	(669,012,383)
Net movement in cumulative translation adjustment		-	-	-	-	-	-	(26,892,409)	-	(26,892,409)
Net income for the year		-	-	-	-	629,169,582	-	-	-	629,169,582
Total comprehensive income for the year		-	-	-	-	629,169,582	-	(26,892,409)	(669,012,383)	(66,735,210)
Issuance of new shares		3,409,018,210	2,506,996,957	-	-	-	-	-	-	5,916,015,167
Amortization of deferred losses arising from the sale of nonperforming assets (NPAs)						(170,860,170)				(170,860,170)
Appropriation of surplus		-	-	-	23,378,020	24,065,291	-	-	-	47,443,311
Transfer of revaluation increment realized through depreciation		-	-	-	-	119,313,026	(119,313,026)	-	-	-
		3,409,018,210	2,506,996,957	-	23,378,020	(27,481,853)	(119,313,026)	-	-	5,792,598,308
Balance as of December 31, 2010		P8,620,462,350	P6,833,806,556	P -	P125,680,876	(P2,736,353,340)	P86,838,924	P11,079,097	(P474,295,990)	P12,467,218,473

Forward

Years Ended December 31

	Note	Capital Stock (Note 22)	Paid-in Surplus (Note 22)	Deposit For Future Stock Subscriptions (Note 22)	Surplus Reserves (As Restated - see Notes 23 and 37)	Deficit (As Restated - see Note 37)	Revaluation Increment on Property	Cumulative Translation Adjustment (Note 2)	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Total Equity
Balance as of December 31, 2008, as previously reported		P2,915,888,800	P2,373,956,331	P500,769,600	P102,302,856	P124,167,696	P217,837,552	P27,168,771	(P371,228,708)	P5,890,862,898
Prior period adjustments	*37*	-	-	-	-	(3,920,375,147)	-	-	388,052,105	(3,532,323,042)
Balance as of December 31, 2008, as restated		2,915,888,800	2,373,956,331	500,769,600	102,302,856	(3,796,207,451)	217,837,552	27,168,771	16,823,397	2,358,539,856
Changes in fair value of available-for-sale (AFS) securities		-	-	-	-	-	-	-	177,892,996	177,892,996
Changes in fair value of AFS investments taken to profit/loss		-	-	-	-	-	-	-	-	-
Net movement in cumulative translation adjustment		-	-	-	-	-	-	10,802,735	-	10,802,735
Net income for the year		-	-	-	-	617,340,949	-	-	-	617,340,949
Total comprehensive income for the year		-	-	-	-	617,340,949	-	10,802,735	177,892,996	806,036,680
Issuance of new shares		2,295,555,340	1,952,853,268	(500,769,600)	-	-	-	-	-	3,747,639,008
Amortization of deferred losses arising from the sale of NPAs		-	-	-	-	(170,860,169)	-	-	-	(170,860,169)
Transfer of revaluation increment realized through depreciation		-	-	-	-	11,685,602	(11,685,602)	-	-	-
		2,295,555,340	1,952,853,268	(500,769,600)	-	(159,174,567)	(11,685,602)	-	-	3,576,778,839
Balance as of December 31, 2009		P5,211,444,140	P4,326,809,599	P -	P102,302,856	(P3,338,041,069)	P206,151,950	P37,971,506	P194,716,393	P6,741,355,375

See Notes to the Financial Statements.

BANK OF COMMERCE

STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	2010	2009 (As Restated - see Note 37)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax expense		**P882,795,846**	P837,811,212
Adjustments for:			
Impairment losses	*15*	**1,184,145,020**	1,152,936,106
Unrealized gain on financial assets and liabilities at fair value through profit or loss	*26*	**(172,699,940)**	(817,488,599)
Accretion of interest income on subordinated debt		**3,914,597**	4,800,809
Net loss on sale of land and building	*12*	**7,963,431**	-
Gain on foreclosure or sale of foreclosed assets	*13*	**(167,297,044)**	(261,766,031)
Depreciation and amortization	*12, 13*	**228,099,070**	234,321,078
Amortization of software costs	*14*	**40,173,829**	35,992,648
Share in net loss of an associate	*11*	**3,170,567**	3,583,655
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Interbank loans receivable and securities purchased under resale agreements		**(3,206,878,192)**	(9,839,761,569)
Financial assets at fair value through profit or loss		**923,959,023**	28,606,085
Loans and receivables		**4,200,293,086**	4,409,192,301
Other assets		**(414,491,805)**	(379,992,769)
Increase (decrease) in:			
Deposit liabilities		**372,312,102**	8,939,843,881
Financial liabilities at fair value through profit or loss		**(937,625,424)**	(598,240,018)
Manager's checks and acceptances payable		**(109,304,250)**	129,635,060
Accrued interest, taxes and other expenses		**(69,191,714)**	(176,292,007)
Other liabilities		**(95,760,978)**	60,301,912
Net cash generated from operations		**2,673,577,224**	3,763,483,754
Income taxes paid		**(256,188,673)**	(213,226,504)
Net cash provided by operating activities		**2,417,388,551**	3,550,257,250
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale or redemption of:			
Available-for-sale securities	*9*	**9,962,886,509**	36,047,078,970
Held-to-maturity investments	*9*	**942,436,114**	597,722,625
Property and equipment	*12*	**242,997,117**	46,873,505
Investment properties	*13*	**1,267,533,914**	(615,950,369)
Deferred software cost	*14*	**25,512,798**	(36,373,647)
Additions to:			
Available-for-sale securities		**(10,569,027,917)**	(40,312,079,655)
Held-to-maturity investments	*9*	**(295,659,264)**	(28,700,000)
Property and equipment	*12*	**(851,594,697)**	(218,461,492)
Investment properties	*13*	**(390,433,882)**	577,432,071
Deferred software costs	*14*	**(25,153,736)**	76,763,189
Net cash provided by (used in) investing activities		**309,496,956**	(3,865,694,803)

Forward

	Note	2010	2009 (As Restated - see Note 37)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of capital stock	*22*	**P5,916,015,167**	P4,248,408,608
Payment of unsecured subordinated debt		**(1,196,085,403)**	-
Bills payable and securities		**(922,007,106)**	(3,598,606,439)
Conversion of deposit for future stock subscription		**-**	(500,769,600)
Net cash provided by financing activities		**3,797,922,658**	149,032,569
Effect of exchange rate differences	*2*	**(26,892,409)**	10,802,734
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**6,497,915,756**	(155,602,250)
CASH AND CASH EQUIVALENTS AT BEGINNING 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
		12,579,128,555	12,734,730,805
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items		**959,133,794**	862,601,315
Due from Bangko Sentral ng Pilipinas		**8,721,630,799**	8,503,131,565
Due from other banks		**8,813,952,998**	1,651,638,376
Interbank loans receivable and securities		**582,326,720**	1,561,757,299
		P19,077,044,311	P12,579,128,555
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received		**P5,754,135,449**	P7,286,676,876
Interest paid		**2,474,702,811**	3,587,793,093

See 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 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 received its Expanded Foreign Currency Deposit Unit (FCDU) license on March 10, 2010. The Bank was renamed Commercial Bank of Manila on January 8, 1981, further renamed Boston Bank of the Philippines on July 27, 1988, and finally, Bank of Commerce on November 9, 1991.

On July 13, 2010, the Bangko Sentral ng Pilipinas (BSP) approved the Bank's proposed change of location of its head office and the conversion of its former main office branch as Ayala Avenue Branch and SMPC branch to Main Office Branch. Subsequently on February 25, 2011, upon receipt of the related SEC approval of its amended Articles of Incorporation and amended By-laws reflecting this change, the Bank's principal place of business was changed from Phil. First Building, 6764 Ayala Avenue, Makati City to San Miguel Properties Centre, No. 7 St. Francis Street, Mandaluyong City. The Bank has a total of 117 branches nationwide as of December 31, 2010 and 2009.

The Bank's financial statements as of and for the year ended December 31, 2010 were approved and authorized for issue by the Board of Directors (BOD) on March 15, 2011.

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);

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

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

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

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Financial Reporting Standards Council approved the adoption of a number of new or revised standards, amendments to standards, and interpretations [based on International Financial Reporting Interpretations Committee (IFRIC) Interpretations] as part of PFRSs.

Adopted effective January 1, 2010

- 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. The adoption of this interpretation did not result in any significant financial impact on the financial statements of the Bank.

- *Improvements to PFRSs 2009*, contain 15 amendments to 12 standards. The improvements are generally effective for annual periods beginning on or after January 1, 2010. Of the said improvements, the following is relevant to the Bank but its adoption did not have a significant effect on the financial statements of the Bank.

  •PAS 7 *Statement of Cash Flows*. The amendments clarify that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2010, and have not been applied in preparing these financial statements. However, none of these is expected to have a significant effect on the financial statements of the Bank, except for PFRS 9 *Financial Instruments*, which becomes mandatory for the Bank's 2013 financial statements and could change the classification and measurement of financial assets.

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

To be Adopted on January 1, 2011

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, addresses issues in respect of the accounting by the debtor in a debt for equity swap transaction. It clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a debt for equity swap are consideration paid in accordance with PAS 39 paragraph 41. The interpretation is applicable for annual periods beginning on or after July 1, 2010.

- *Revised PAS 24, Related Party Disclosures* (2009), amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised standard is effective for annual periods beginning on or after January 1, 2011.

- *Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction).* These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The amendments are effective for annual periods beginning on or after January 1, 2011.

- *Improvements to PFRSs 2010* contain 11 amendments to six standards and to one interpretation. The amendments are generally effective for annual periods beginning on or after January 1, 2011. Of the said amendments, the following is relevant to the Bank but its adoption did not have a significant effect on the financial statements of the Bank.

  •PAS 1, *Presentation of Financial Statements*. The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognized in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendments are effective for annual periods beginning on or after January 1, 2011. Early application is permitted.

To be Adopted on January 1, 2012

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7)*, require additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. Entities are required to apply the amendments for annual periods beginning on or after July 1, 2011. Earlier application is permitted. Entities are not required to provide the disclosures for any period that begins prior to July 1, 2011.

- *Deferred Tax: Recovery of Underlying Assets (Amendments to PAS 12)* introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with PAS 40 Investment Property. The exception also applies to investment properties acquired in a business combination accounted for in accordance with PFRS 3 Business Combinations provided the acquirer subsequently measure these assets applying the fair value model. The amendments integrated the guidance of Philippine Interpretation SIC-21 Income Taxes - Recovery of Revalued Non-Depreciable Assets into PAS 12, and as a result Philippine Interpretation SIC-21 has been withdrawn. The effective date of the amendments is for periods beginning on or after January 1, 2012 and is applied retrospectively. Early application is permitted.

To be Adopted on January 1, 2013

- PFRS 9, Financial Instruments (2009) was issued as the first phase of the PAS 39 replacement project. The chapters of the standard released in 2009 only related to the classification and measurement of financial assets. PFRS 9 (2009) 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. In October 2010, a new version of PFRS 9 Financial Instruments (2010) was issued which now includes all the requirements of PFRS 9 (2009) without amendment. The new version of PFRS 9 also incorporates requirements with respect to the classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities. 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. Earlier application is permitted. PFRS 9 (2010) supersedes PFRS 9 (2009). However, for annual periods beginning before January 1, 2013, an entity may elect to apply PFRS 9 (2009) rather than PFRS 9 (2010).

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 the financial statements.

Foreign Currency Transactions
Foreign exchange differences arising from foreign currency transactions and re-translations of foreign currency-denominated assets and liabilities are credited to or charged against operations in the period in which the rates change under "Foreign exchange gains" account in the statement of income, except for differences arising from the retranslation of AFS equity securities which are recognized directly in statement of comprehensive income.

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

For reporting purposes, the FCDU income and expenses are translated into their equivalent in Philippine peso based on the PDS weighted average rate (PDSWAR) for the year. The assets and liabilities of the FCDU at the reporting date are translated into Philippine peso using PDS closing rate at the reporting date.

Exchange differences arising from translation of FCDU accounts to Philippine peso are recorded under "Cumulative translation adjustment" account in the statement of financial position.

Financial Instruments

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 fair 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.

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 re-measured 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 2010 and 2009, 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)" account. Interest earned or incurred is recorded as interest income or interest expense, respectively, while dividend income recorded under "Miscellaneous income" account when the right of the 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.

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 income. 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 income. The effects of revaluing foreign currency-denominated HTM investments are recognized in the statement of income.

Loans and Receivables
Loans and receivables include cash and cash equivalents, balances due from BSP and from other banks, interbank loans receivables, 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 income.

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 is reported in profit or loss. The impact of restatement on foreign currency-denominated AFS securities is also reported in 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 under "Impairment losses" in the statement of income.

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 Philippine Deposit and Insurance Company (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 income and is amortized over the life of the agreement using the effective interest method.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another financial liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

<u>Impairment of Financial Assets</u>
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 income.

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 recognized in profit or loss on equity securities classified as AFS 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.

<u>Offsetting</u>
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.

<u>Cash and Cash Equivalents</u>
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.

<u>Financial Guarantees</u>
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).

<u>Debt Issue Costs</u>
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.

<u>Investment in an Associate</u>
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 Bank's interest in the associate.

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

Property and Equipment
Land and building are stated at appraised values less 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" account in the statement of financial position.

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

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

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

Estimated useful lives of property and equipment are as follows:

	Years
Buildings	50
Furniture, fixtures and equipment	3 - 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 and amortization 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 5 - 50 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 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.

Impairment of Nonfinancial Assets

Property and Equipment, Investment Properties and Intangible Assets
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 first to the revaluation increment of the said asset.

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

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

Service Charges, 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.

Rent Income
Payments received under operating lease arrangements are recognized in profit or loss on a straight-line basis over the term of the lease.

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 the defined benefits retirement plan (see Note 27) is the present value of the defined benefits obligation at the valuation date less the fair value of plan assets, 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 retirement 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.

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 income on a straight-line basis over the lease term.

Bank as a Lessor
The Bank is also a party to operating leases as a lessor. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and 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 benefits of unused MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the year when the asset is realized or the liability is and, at the time of the transaction, affects neither the accounting income nor taxable income.

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.

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

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

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statement of financial position together with 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, 2010 and 2009, the market value of HTM investments amounted to P12.0 billion and P14.0 billion. As of December 31, 2010 and 2009, the carrying value of HTM investments amounted to P10.1 billion and P10.8 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's management currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 31).

(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.

(g) *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 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.

As of December 31, 2010 and 2009, the required allowance for impairment losses on AFS equity securities amounted to P194.3 million and P296.1 million (as restated), respectively (see Note 9). As of December 31, 2010 and 2009, AFS equity securities amounted to P304.8 million and P355.4 million (as restated), respectively (see Note 9).

As of December 31, 2010 and 2009, the required allowance for impairment losses on AFS debt securities amounted to P567. 3 million and P740.5 million (as restated), respectively (see Note 9). As of December 31, 2010 and 2009, AFS debt securities amounted to P14.5 billion and P14.0 billion (as restated), respectively (see Note 9).

As of December 31, 2010 and 2009, the carrying value of AFS securities of the Bank amounted to P14.8 billion and P14.4 billion (as restated), 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.

As of December 31, 2010 and 2009, required allowance for impairment losses on AFS unquoted equity securities amounted to P194.3 million and P296.1 million (as restated), respectively (see Note 9). As of December 31, 2010 and 2009, AFS unquoted equity securities amounted to P304.5 million and P355.4 million (as restated), respectively (see Note 9).

(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. Loans and receivables that are individually significant are assessed to determine whether objective evidence of impairment exists on an individual basis, while those that are not individually significant are assessed for objective evidence of impairment on a collective basis. In determining whether an impairment loss should be recognized in profit or loss, the Bank makes judgments as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables 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, 2010 and 2009, required allowance for impairment and credit losses on loans and receivables amounted to P5.3 billion and P4.5 billion (as restated), respectively (see Notes 10 and 15). The carrying value of loans and receivables amounted to P35.9 billion and P41.9 billion (as restated) as of December 31, 2010 and 2009, respectively (see Note 10).

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

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

(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 P624.3 million and P715.4 million as of December 31, 2010 and 2009, 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 P2.3 billion and P2.2 billion as of December 31, 2010 and 2009, respectively (see Note 30).

(e) *Impairment of Nonfinancial Assets*

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

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

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

As of December 31, 2010 and 2009, the combined carrying value of the property and equipment, investment properties and software costs amounted to P5.6 billion (as restated).

(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 2010 and 2009 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 P335.5 million and P341.1 million as of December 31, 2010 and 2009, respectively (see Note 27). As of December 31, 2010, the net pension asset of the Bank amounted to P2.3 million (included under "Other assets" account in Note 14 to the financial statements). As of December 31, 2009, the net pension liability of the Bank amounted to P19.8 million (included in Accrued retirement liability component under "Accrued interest, taxes and other expenses" account in Note 18 to the financial statements).

5. Financial Risk Management Objectives and Policies

Introduction
The business of banking involves financial risks which must be measured, monitored and managed by an effective risk management system embedded throughout the whole organization. Effective risk management ensures that financial risks 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, oversees the Bank's risk management system. It is responsible for 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 Division (RSK)
The RSK is responsible for the creation and oversight of the Bank's corporate risk policy. It is responsible for making recommendations to the BOD on corporate policies and guidelines for risk measurement, management and reporting. It also reviews the system of risk limits, compliance to said limits and validates the reports of the risk taking personnel. The RSK reports to the BROC.

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

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

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

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

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

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

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

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

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

The Bank maintains a capital adequacy ratio (CAR) of 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.

<u>Excessive Risk Concentration</u>
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 sub-segments, as applicable to the debtor.

<u>Credit Risk</u>
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 approval authorities and respective limits duly approved by the BOD.

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

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 on a gross basis, before the effect of mitigation through the use of master netting and collateral agreements (in thousands).

	2010	2009 (As Restated - see Note 37)
Cash and other cash items (COCI) (excluding cash on hand)	**P8,899**	P23,352
Due from BSP	**8,721,631**	
Due from other banks	**8,813,953**	1,651,638
Interbank loans receivables and SPURA	**15,582,327**	13,354,879
	33,126,810	23,533,001
Financial assets at FVPL:		
Derivative assets	**236,077**	422,056
Government securities held for trading	**50,669**	427,245
Private debt securities held for trading	**1,129**	189,833
	287,875	1,039,134
AFS Securities:		
Quoted government securities	**6,786,452**	4,854,301
Quoted other debt securities	**372,978**	543,830
Unquoted other debt securities	**7,295,113**	8,641,220
Unquoted equity securities	**304,847**	355,430
	14,759,390	14,394,781
HTM Securities:		
Quoted government securities	**10,144,625**	8,867,451
Quoted other debt securities	**-**	1,923,951
	10,144,625	10,791,402
Loans and receivables:		
Receivables from customers	**28,035,211**	33,786,131
Less unearned interest income	**233,655**	1,415,795
	27,801,556	32,370,336
Structured notes	**88,030**	464,783
Unquoted debt securities	**4,753,240**	4,788,934
Accrued interest receivable	**984,046**	1,147,218
Sales contract receivable	**1,928,580**	1,938,694
Accounts receivable	**267,537**	979,010
Returned checks and other check items (RCOCI)	**49,585**	177,401
	P35,872,574	P41,866,376

Collateral and Other Credit Enhancements

	Note	2010	2009
On-books accounts		**P94,191,274**	P91,624,694
Commitments	31	**940,626**	1,328,182
Contingent liabilities	31	**18,960,830**	14,252,923
		19,901,456	15,581,105
Less contingent assets		**1,133,087**	10,710,389
Off-books accounts		**18,768,369**	4,870,716
Total credit risk exposure		**P75,422,905**	P86,753,978

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

The main types of collateral obtained are as follows:

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

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

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

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

The 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, 2010					
	Neither Past Due nor Individually Impaired					
	High Grade	**Standard Grade**	**Substandard**	**Unrated**	**Past Due or Impaired**	**Total**
Loans and receivables:						
Receivable from customers	**P13,961,079**	**P7,715,861**	**P3,425,521**	**P1,890,704**	**P4,482,521**	**P31,475,686**
Unquoted debt securities	**-**	**-**	**-**	**5,068,606**	**-**	**5,068,606**
Structured notes	**-**	**-**	**-**	**632,402**	**-**	**632,402**
Accrued interest receivable	**-**	**-**	**-**	**1,128,817**	**-**	**1,128,817**
Sales contract receivable	**-**	**-**	**-**	**1,928,581**	**-**	**1,928,581**
Accounts receivable	**-**	**-**	**-**	**1,117,106**	**-**	**1,117,106**
RCOCI	**-**	**-**	**-**	**49,585**	**-**	**49,585**
	P13,961,079	**P7,715,861**	**P3,425,521**	**P11,815,801**	**P4,482,521**	**P41,400,783**

	December 31, 2009				
	Neither Past Due nor Individually Impaired				
	High Grade	Standard Grade	Unrated	Past Due or Impaired	Total
Loans and receivables:					
Receivable from customers	P10,132,654	P4,460,310	P9,887,343	P13,315,677	P37,795,984
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

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 need to be watched.

Satisfactory - BRR 4
These are loans where there are certain clear risk element present, volatility of earnings and overall performance, normally have limited access to financial markets, can withstand normal business cycles but prolonged unfavorable economic period would affect performance, good matching of assets and cash flows, adequate debt servicing, reported profits in the fiscal year, with expectations of a profitable outcome in the current year, adequate to marginal liquidity, generally meeting obligations, likely to experience disruptions from external factors but the borrower has a great chance to overcome them.

Acceptable - BRR 5
These are loans with sufficiently pronounced risk elements, still able to withstand normal business cycles, prolonged economic and financial crisis which can have an immediate effect on the company's operations, sufficient cash flow in spite of an economic downturn, with extraordinary developments that can present higher risk, marginal liquidity, declining trend in profits but repayment is still within satisfactory level, and with turnovers or unfilled key management positions.

Watchlist - BRR 6
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, AFS securities, HTM investments and unquoted debt securities classified as loans, 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, 2010		
	AA - A	Below BBB or Unrated	Total
Due from BSP	P -	P8,721,630,799	P8,721,630,799
Due from other banks	8,289,649,998	524,303,000	8,813,952,998
Interbank loans receivable and securities purchased under resale agreements	582,326,720	15,000,000,000	15,582,326,720
	8,871,976,718	24,245,933,799	33,117,910,517
Financial assets at FVPL:			
Derivative assets*	182,161,626	53,914,889	236,076,515
Government securities held for trading	-	50,669,076	50,669,076
Other debt securities	-	1,129,576	1,129,576
	182,161,626	105,713,541	287,875,167
AFS securities:			
Quoted government securities	6,786,452,289	-	6,786,452,289
Quoted other debt securities	372,978,401	-	372,978,401
Unquoted other debt securities	-	7,862,389,570	7,862,389,570
Unquoted equity securities	-	499,125,319	499,125,319
	7,159,430,690	8,361,514,889	15,520,945,579
HTM investments:			
Quoted government securities	-	10,144,625,377	10,144,625,377
Quoted other debt securities	-	-	-
	-	10,144,625,377	10,144,625,377
Loans and receivables:			
Structured notes	-	632,401,965	632,401,965
Unquoted debt securities	-	5,068,606,336	5,068,606,336
	-	5,701,008,301	5,701,008,301
Total	**P16,213,569,034**	**P48,558,795,907**	**P64,772,364,941**

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

	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 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 securities	4,854,301,004	-	4,854,301,004
Quoted other debt securities	543,830,364	-	543,830,364
Unquoted other debt securities	9,381,724,026	-	9,381,724,026
Unquoted equity securities	-	651,536,695	651,536,695
	14,779,855,394	651,536,695	15,431,392,089
HTM investments:			
Quoted government securities	-	8,867,450,830	8,867,450,830
Quoted other debt securities	1,456,343,855	467,607,542	1,923,951,397
	1,456,343,855	9,335,058,372	10,791,402,227
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	P20,025,135,362	P36,449,680,347	P56,474,815,709

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

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

	2010	2009
Term loans	P2,966,305,367	P2,699,427,589
Agri-agra loans	602,196,576	639,306,365
Direct advances	449,714,364	293,164,311
Others	43,269,832	7,592,184
	P4,061,486,139	P3,639,490,449

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 (in thousands).

	December 31, 2010				
	1-30 days	31-60 days	61-90 days	More than 90 days	Total
Receivable from customers:					
Direct advances	P247,156,462	P169,754,187	P95,039,902	P1,093,568,517	P1,605,519,068
Term loans	11,180,961	185,357,295	30,840,726	1,386,539,448	1,613,918,430
Agri-agra	1,322,500	19,000,000	6,260,000	347,244,406	373,826,906
Bills purchased, import bills and trust receipts	28,475,277	34,330,506	19,391,013	126,757,382	208,954,178
Others	9,419,069	28,645,308	4,039,251	220,672,615	262,776,243
Sales contract receivable	14,726	-	20,286	839,841	874,853
	P297,568,995	P437,087,296	P155,591,178	P3,175,622,209	P4,065,869,678

	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, import 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

Based on the top 20 past due loans as of December 31, 2010 and 2009, the Bank has secured loans of P0.9 billion and P2.4 billion, respectively, which are collateralized by either real estate mortgage or chattel mortgage with total fair market value of P1.6 billion and P3.1 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.

<u>Liquidity Risk and Funding Management</u>

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 to stress factors relating to both the market in general and specifically to the Bank. A contingency funding plan, which covers quantitative and procedural measures, is in place and may be applied under different stress scenarios. The Bank also manages its liquidity position through the monitoring of a Maximum Cumulative Outflow (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, 2010 and 2009 based on contractual undiscounted repayment obligations (in millions). The maturity profile of assets and liabilities of the Bank 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.

		December 31, 2010					
	Note	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Deposit liabilities:							
Demand		P13,776	P -	P -	P -	P -	P13,776
Savings		9,068	24,843	3,639	-	-	37,550
Time		-	17,321	16,545	1,996	-	35,862
Bills payable and SSURA		-	71	21	-	3,024	3,116
Manager's check and acceptances payable		214	36	5	-	-	255
Accrued interest and other expenses		558	-	-	-	-	558
Subordinated debt		-	-	300	-	-	300
Other liabilities		1,006	-	-	-	-	1,006
		24,622	42,271	20,510	1,996	3,024	92,423
Financial liabilities at FVPL	8	-	-	-	-	414	414
Total undiscounted financial liabilities		P24,622	P42,271	P20,510	P1,996	P3,438	P92,837

		December 31, 2009					
	Note	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	41	-	2,997	4,071
Manager's check and acceptances payable		306	52	6	-	-	364
Accrued interest and other expenses		617	-	-	-	-	617
Subordinated debt		-	-	1,200	300	-	1,500
Other liabilities		1,125	-	-	-	-	1,125
		21,775	59,521	8,362	1,838	2,997	94,493
Financial liabilities at FVPL	8	-	-	-	-	1,352	1,352
Total undiscounted financial liabilities		P21,775	P59,521	P8,362	P1,838	P4,349	P95,845

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

	December 31, 2010				
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Commitments	P -	P7,890,530	P219,200	P -	P8,109,730
Contingent liabilities	10,906,231	211,292	511,173	163,030	11,791,726
Total	P10,906,231	P8,101,822	P730,373	P163,030	P19,901,456

	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

The following tables set forth the asset-liability gap position of the Bank as of December 31, 2010 and 2009 (in millions):

	December 31, 2010					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
Financial Assets						
COCI	P959	P -	P -	P -	P -	P959
Due from BSP	8,022	700	-	-	-	8,722
Due from other banks	8,814	-	-	-	-	8,814
Interbank loans receivables and securities purchased under resale agreements	14,962	620	-	-	-	15,582
Financial assets at FVPL						
Derivative assets	120	30	-	86	-	236
Government securities held for trading	-	-	-	-	51	51
Other debt securities	-	-	-	-	1	1
AFS securities - gross						
Quoted government securities	-	-	-	-	6,786	6,786
Quoted other debt securities	-	-	-	-	373	373
Unquoted other debt securities	-	-	-	-	7,862	7,862
Unquoted equity securities	-	-	-	-	499	499
HTM investments						
Government securities	-	-	-	-	10,145	10,145
Quoted other debt securities	-	-	-	-	-	-
Loans and receivables - gross	-	-				
Receivable from customers	-	-	-	-	-	-
Term Loans	3,465	4,403	2,964	382	2,043	13,257
Direct Advances	31	86	70	7,811	1,457	9,455
Agri-agra	272	658	1,372	1,617	1,348	5,267
Bills purchased, import bills and trust receipts	57	45	14	1,826	222	2,164
Others	-	-	8	81	1,244	1,333
Structured notes	98	42	-	-	492	632
Unquoted debt securities	-	-	-	197	4,871	5,068
Accrued interest receivable	836	-	-	-	293	1,129
Sales contract receivable	15	-	21	1,010	883	1,929
Accounts receivable	-	-	-	1,117	-	1,117
RCOCI	50	-	-	-	-	50
Total Loans and Receivable	4,824	5,234	4,449	14,041	12,853	41,401
Total	37,701	6,584	4,449	14,127	38,570	101,431
Financial Liabilities						
Deposit liabilities						
Demand	13,776	-	-	-	-	13,776
Savings	9,068	24,843	3,639	-	-	37,550
Time	-	17,321	6,874	9,671	1,996	35,862
Bills payable and SSURA	-	71	21	-	3,024	3,116
Manager's checks and acceptances payable	214	36	5	-	-	255
Accrued interest and other expenses	558	-	-	-	-	558
Subordinated debt	-	-	300	-	-	300
Financial liabilities at FVPL	-	-	-	-	414	414
Other liabilities	1,006	-	-	-	-	1,006
Total	24,622	42,271	10,839	9,671	5,434	92,837
Asset-liability gap	P13,079	(P35,687)	(P6,390)	P4,456	P33,136	P8,594

	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	-	287	-	422
Government securities held for trading	-	-	-	347	80	427
Other debt securities	-	-	-	-	190	190
AFS securities- gross						
Quoted government securities	-	-	-	-	4,854	4,854
Quoted other debt securities	-	-	-	-	544	544
Unquoted other debt securities	-	-	-	-	9,382	9,382
Unquoted equity securities	-	-	-	-	652	652
HTM investments						
Government securities	-	-	-	-	8,867	8,867
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	-	-	-	-	1,222
Sales contract receivable	17	17	3	2	1,900	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	2,681	49,407	99,451
Financial Liabilities						
Deposit liabilities						
Demand	P11,499	P -	P -	P -	P -	P11,499
Savings	7,233	40,318	102	33	-	47,686
Time	-	19,113	3,117	3,863	1,538	27,631
Bills payable and SSURA	995	38	31	10	2,997	4,071
Manager's checks and acceptances payable	306	52	6	-	-	364
Accrued interest and other expenses	617	-	-	-	-	617
Subordinated debt	-	-	1,200	-	300	1,500
Financial liabilities at FVPL	-	-	-	-	1,352	1,352
Other liabilities	1,125	-	-	-	-	1,125
Total	21,775	59,521	4,456	3,906	6,187	95,845
Asset-liability gap	P10,881	(P52,646)	P3,376	(P1,225)	P43,220	P3,606

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. 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 the average EIRs by period of maturity or repricing of the Bank's interest-bearing financial assets and liabilities as of December 31, 2010 and 2009:

	December 31, 2010		
	Less than 3 months	**3 months to 1 year**	**Greater than 1 year**
Financial Assets			
Due from BSP	2.7	-	-
Due from other banks	0.1	-	-
Interbank loans receivables and SPURA	0.7	-	-
Financial assets at FVPL			
Government securities held for trading	4.0	2.9	5.0
Other debt securities	-	-	6.4
AFS securities			
Quoted government securities	-	-	5.7
Quoted other debt securities	-	-	5.3
Unquoted other debt securities	-	-	7.5
HTM investments			
Quoted government securities	5.3	-	6.6
Loans and receivables			
Receivable from customers	-	10.4	3.6
Structured notes	-	-	2.9
Unquoted debt securities	2.3	3.4	3.0
Sales contract receivable	10.9	9.5	10.1
Financial Liabilities			
Deposit liabilities			
Demand	0.2	-	-
Savings	2.1	2.8	2.2
Time	1.1	2.8	5.3
Bills payable and SSURA	6.2	5.8	9.0
Subordinated debt	-	8.6	-

	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 securities held for trading	3.9	4.4	6.3
Other debt securities	-	-	5.8
AFS securities			
Quoted government securities	-	-	4.8
Quoted other debt securities	-	-	2.5
Unquoted other debt securities	-	-	7.5
HTM investments			
Quoted government securities	-	-	6.9
Quoted other debt securities	7.6	-	2.2
Loans and receivables			
Receivable from customers	-	10.4	9.9
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	0.5	-	-
Savings	3.1	6.7	-
Time	2.4	4.9	6.6
Bills payable and SSURA	5.5	7.0	9.4
Subordinated debt	-	12.2	8.6

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:

	December 31, 2010		
Currency	Changes in interest rates (in basis points)	Sensitivity of net interest income (in millions)	Sensitivity of other comprehensive income (in millions)
PHP	+18	53	(1.4)
USD	+06	(14)	0.4
PHP	-18	(53)	1.4
USD	-06	14	(0.4)

	December 31, 2009		
Currency	Changes in interest rates (in basis 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

The sensitivity of the results of operations is measured as the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate of financial assets and financial liabilities held as of December 31, 2010 and 2009. The sensitivity of other comprehensive income is calculated by revaluing fixed-rate AFS debt securities as of December 31, 2010 and 2009. 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.

Equity Price Risk
Given the nature and amount of the Bank's equity investments portfolio in 2010 and 2009, the Bank's exposure to equity price risk is minimal.

Currency Risk
Foreign currency deposits are generally used to fund the foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities held in 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, 2010 and 2009. 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, 2010			
	USD	Euro	Others	Total
Assets				
Due from other banks	$179,983	$347	$527	$180,857
Interbank loans receivable and securities purchased under resale agreements	7,083	-	-	7,083
Financial assets at FVPL	16,723	-	-	16,723
AFS securities	333,877	-	-	333,877
HTM investments	88,060	-	-	88,060
Loans and receivables	104,229	-	-	104,229
Total assets	729,955	347	527	730,829
Liabilities				
Deposit liabilities	627,104	208		627,312
Bills payable and SSURA	-	-	-	-
Accrued interest, taxes and other expenses	889	22	-	911
Other liabilities	621,542	1	-	621,543
Total liabilities	1,249,535	231	-	1,249,766
Net Exposure	($519,580)	$116	$527	($518,937)

	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

The table below indicates the currencies which the Bank has significant exposure to at December 31, 2010 and 2009 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 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, 2010				
Currency				
USD	**P1.00**	**P16.01**	**(P1.00)**	**(P16.01)**
Euro	**0.50**	**(0.12)**	**(0.50)**	**0.12**
Others	**0.40**	**(.20)**	**(0.40)**	**0.20**
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

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 Securities - Fair values are based on quoted market prices.

Investments in Unquoted Debt Securities - Since the market prices are not readily available, the Bank estimates their fair values using the adjusted quoted market prices of comparable securities, 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 - The estimated fair value of loans and receivables is equivalent to the estimated future cash flows expected to be received discounted using current market rates.

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, 2010 and 2009 (in thousands):

	December 31, 2010		December 31, 2009 (As Restated)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL:				
Government securities held for trading	**P50,669**	**P50,669**	P427,245	P427,245
Other debt securities	**1,129**	**1,129**	189,833	189,833
Derivative assets	**236,077**	**236,077**	422,056	422,056
	287,875	**287,875**	1,039,134	1,039,134
AFS securities:				
Quoted government securities	**6,786,452**	**6,786,452**	4,854,301	4,854,301
Quoted other debt securities	**372,978**	**372,978**	543,830	543,830
Unquoted other debt securities	**7,295,113**	**7,295,113**	8,641,220	8,641,220
Unquoted equity securities	**304,847**	**304,847**	355,430	355,430
	14,759,390	**14,759,390**	14,394,781	14,394,781
HTM investments:				
Quoted government securities	**10,144,625**	**12,005,747**	8,867,451	12,039,329
Quoted other debt securities	**-**	**-**	1,923,951	1,923,951
	10,144,625	**12,005,747**	10,791,402	13,963,280
Loans and receivable:				
COCI	**959,134**	**959,134**	862,601	862,601
Due from BSP and other banks	**17,535,584**	**17,535,584**	10,154,770	10,154,770
Interbank loans receivable and securities purchased under resale agreements	**15,582,327**	**15,582,327**	13,354,879	13,354,879
Receivable from customers				
Direct advances	**9,221,518**	**9,221,518**	11,829,257	11,829,257
Term loans	**10,923,814**	**10,923,814**	14,264,177	14,264,177
Agri-agra loans	**4,461,440**	**4,461,440**	3,937,909	3,937,909
Bills purchased, import bills and trust receipts	**2,154,435**	**2,154,435**	2,577,530	2,577,530
Others	**731,536**	**731,536**	947,737	947,737
	27,492,743	**27,492,743**	33,556,610	33,556,610
Less unearned interest	**233,655**	**233,655**	1,415,795	1,415,795
	27,259,088	**27,259,088**	32,140,815	32,140,815
Structured notes	**632,402**	**632,402**	694,304	694,304
Unquoted debt securities	**4,582,486**	**4,582,486**	4,788,934	4,788,934
Accrued interest receivable	**1,126,499**	**1,126,499**	1,147,218	1,147,218
Sales contract receivable	**1,928,580**	**1,928,580**	1,938,694	1,938,694
Accounts receivable	**294,882**	**294,882**	979,010	979,010
RCOCI	**48,637**	**48,637**	177,401	177,401
	69,949,619	**69,949,619**	66,238,626	66,238,626
	P95,141,509	**P97,002,631**	P92,463,943	P95,635,821

	December 31, 2010		December 31, 2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities				
Financial liabilities at FVPL	**P414,300**	**P414,300**	P1,351,925	P1,351,925
Financial liabilities at amortized cost				
Deposit liabilities				
Demand	**13,776,291**	**13,776,291**	11,499,045	11,499,045
Savings	**37,549,963**	**37,549,963**	47,685,734	47,685,734
Time	**35,862,044**	**35,862,044**	27,631,207	27,631,207
Bills payable and SSURA	**1,942,939**	**1,942,939**	2,861,031	2,861,031
Manager's check and acceptances Payable	**254,939**	**254,939**	364,243	364,243
Accrued interest and other expenses	**557,975**	**557,975**	616,565	616,565
Subordinated debt	**299,059**	**299,059**	1,495,145	1,495,145
Other liabilities	**1,005,582**	**1,005,582**	1,124,516	1,124,516
	91,248,792	**91,248,792**	93,277,486	93,277,486
	P91,663,092	**P91,663,092**	P94,629,411	P94,629,411

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, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Financial Assets				
Financial assets at FVPL				
Government securities held for trading	**P50,699**	**P -**	**P -**	**P50,699**
Other debt securities	**1,129**	**-**	**-**	**1,129**
Derivative assets	**46,648**	**189,429**	**-**	**236,077**
AFS securities				
Quoted government securities	**6,786,452**	**-**	**-**	**6,786,452**
Quoted other debt securities	**372,978**	**-**	**-**	**372,978**
Unquoted equity securities	**-**	**-**	**304,847**	**304,847**
Unquoted other debt securities	**-**	**-**	**7,295,113**	**7,295,113**
Financial Liabilities				
Financial liabilities at FVPL	**-**	**414,300**	**-**	**414,300**

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Financial Assets				
Financial assets at FVPL				
Government securities held for trading	P427,245	P -	P -	P427,245
Other debt securities	189,833	-	-	189,833
Derivative assets	-	422,056	-	422,056
AFS securities				
Quoted government securities	4,854,301	-	-	4,854,301
Quoted other debt securities	543,830	-	-	543,830
Unquoted equity securities	-	-	355,430	355,430
Unquoted other debt securities	-	-	8,641,220	8,641,220
Financial Liabilities				
Financial liabilities at FVPL	-	1,351,925	-	1,351,925

Instruments included in Level 3 consist of those for which there is currently no active market.

The following table shows the Bank's reconciliation from the beginning balance to the closing balances of financial assets with fair value measurements under level 3 of the fair value hierarchy as of December 31, 2010 and 2009 (in thousands):

	2010		2009	
	Unquoted equity securities	**Unquoted other debt securities**	Unquoted equity securities	Unquoted other debt securities
Balance at beginning of year	**P355,430**	**P8,641,220**	P509,465	P1,275,787
Add:				
Additions	**190**	**-**	-	7,611,940
Unrealized gains during the year	**101,829**	**-**	-	6,714
Reversal of impairment loss	**-**	**173,227**	-	-
	102,019	**173,227**	-	7,618,654
Less:				
Unrealized losses during the year	**-**	**819,462**	-	-
Disposals	**152,602**	**699,872**	-	-
Impairment loss	**-**	**-**	154,035	253,221
	152,602	**1,519,334**	154,035	253,221
Balance at end of year	**P304,847**	**P7,295,113**	P355,430	P8,641,220

7. Interbank Loans Receivable and SPURA

This account consists of:

	2010	2009
Interbank loans receivable	**P582,326,720**	P2,314,879,107
SPURA	**15,000,000,000**	11,040,000,000
	P15,582,326,720	P13,354,879,107

Interest income on interbank loans receivable and SPURA are as follows:

	2010	2009
Interbank loans receivable	**P8,421,247**	P23,426,631
SPURA	**214,127,778**	234,346,667
	P222,549,025	P257,773,298

In 2010 and 2009, interbank loans receivable bears interest rates ranging from 0.0025% to 4.25% and from 0.0025% to 5.5%, respectively.

In 2010 and 2009, interest rates earned on SPURA averaged 4% and 4.75%, respectively.

8. Financial Assets and Financial Liabilities at FVPL

Financial assets at FVPL consist of:

	2010	2009
Derivative assets	**P236,076,515**	P422,056,406
Government securities held for trading	**50,669,076**	427,244,491
Private debt securities held for trading	**1,129,576**	189,833,353
Total	**P287,875,167**	P1,039,134,250

As of December 31, 2010 and 2009, government securities are shown net of unrealized losses of P3.6 million and gains of P0.2 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, 2010 and 2009 and is not indicative of either market risk or credit risk.

	December 31, 2010			
	Derivative Assets	**Derivative Liabilities**	**Notional Amount**	**Leverage Exposure**
Freestanding derivatives:				
Warrants	**P23,016,000**	**P -**	**$ 50,000**	**$ -**
Embedded derivatives:				
Credit default swaps	**213,060,515**	**414,299,603**	**149,187,500**	**169,767,500**
	P236,076,515	**P414,299,603**	**$149,237,500**	**$169,767,500**

	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

9. Investment Securities

This account consists of (in thousands):

	December 31, 2010			December 31, 2009 (As Restated, see Note 37)		
	AFS Securities	**HTM Investments**	**Total**	AFS Securities	HTM Investments	Total
Quoted investments						
Government securities	**P6,786,452**	**P10,144,625**	**P16,931,077**	P4,854,301	P8,867,451	P13,721,752
Other debt securities	**372,978**	**-**	**372,978**	543,830	1,923,951	2,467,781
	7,159,430	**10,144,625**	**17,304,055**	5,398,131	10,791,402	16,189,533
Unquoted investments						
Debt securities, net of impairment loss of P567.3 million in 2010 and P740.5 million in 2009	**7,295,113**	**-**	**7,295,113**	8,641,220	-	8,641,220
Equity securities, net of impairment loss of P194.3 million in 2010 and P296.1 million in 2009	**304,847**	**-**	**304,847**	355,430	-	355,430
	P14,759,390	**P10,144,625**	**P24,904,015**	P14,394,781	P10,791,402	P25,186,183

As of December 31, 2010 and 2009, AFS securities include debt and equity securities which may be doubtful of collection or realization.

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 2010 and 2009, dividend income (included under "Miscellaneous income" account in the statement of income) received from AFS equity securities amounted to P0.6 million.

HTM Investments
As of December 31, 2010 and 2009, HTM investments include government 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 securities are pledged as collateral for the said loan from the PDIC, which is classified under bills payable (see Note 17).

10. Loans and Receivables

This account consists of:

	Note	**2010**	2009 (As Restated - see Note 37)
Receivables from customers:			
Term loans		**P13,256,957,635**	P14,626,845,652
Direct advances		**9,454,623,866**	14,627,477,618
Agri-agra loans		**5,266,909,363**	5,016,393,011
Bills purchased, import bills and trust receipts		**2,164,494,487**	2,577,529,739
Others		**1,332,701,402**	947,737,340
		31,475,686,753	37,795,983,360
Unearned interest income		**(233,655,068)**	(1,415,795,100)
		31,242,031,685	36,380,188,260
Structured notes	*37*	**632,401,965**	694,304,254
Unquoted debt securities		**5,068,606,336**	5,008,933,841
Sales contracts receivable		**1,928,580,506**	1,938,694,402
Accrued interest receivable		**1,128,817,284**	1,221,697,123
Accounts receivable		**1,117,105,839**	979,009,703
Returned checks and other check items		**49,584,663**	177,401,124
		41,167,128,278	46,400,228,707
Less allowance for impairment and credit losses	*15*	**5,294,554,624**	4,533,853,204
		P35,872,573,654	P41,866,375,503

Accounts Receivable
This account includes a receivable from BSP amounting to P65.0 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 has been provided on this account considering the low prospects for recovery.

Regulatory Reporting
As of December 31, 2010 and 2009, the breakdown of receivables from customers as to collateral is as follows (amounts in thousands):

	2010		2009	
	Amount	%	Amount	%
Loans secured by:				
Real estate	P8,875,848	28.2	P10,580,793	28.0
Chattel	1,249,342	4.0	1,260,957	3.3
Deposit hold-out	1,230,078	3.8	1,321,496	3.5
Deed of assignment and others	10,061,569	32.0	9,193,317	24.4
	21,416,837	68.0	22,356,563	59.2
Unsecured	10,058,849	32.0	15,439,420	40.8
	P31,475,686	100.0	P37,795,983	100.0

As of December 31, 2010 and 2009, information on the concentration of credit as to industry follows (amounts in thousands):

	2010		2009	
	Amount	%	Amount	%
Manufacturing (various industries)	P9,547,779	30.3	P4,778,940	12.6
Wholesale and retail trade	6,684,832	21.2	5,687,048	15.1
Financial intermediaries	3,762,496	12.0	2,784,491	7.4
Real estate, renting and business services	3,361,737	10.7	3,093,334	8.2
Other community, social and personal activities	2,430,775	7.7	3,304,917	8.7
Construction	1,417,096	4.5	1,537,107	4.1
Transportation, storage and communications	1,258,901	4.0	1,905,507	5.0
Agriculture	331,660	1.1	9,677,204	25.6
Others	2,680,410	8.5	5,027,435	13.3
	P31,475,686	100.0	P37,795,983	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, 2010 and October 31, 2009, details on the Bank's NPLs are as follows (in thousands):

	2010	2009
Total NPLs	P4,510,728	P3,232,745
Less NPLs fully covered by allowance for credit losses	739,000	628,142
	P3,771,728	P2,604,603

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, 2010 and 2009, restructured loans amounted to P4.1 billion and P3.6 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, 2010 and 2009, restructured receivables from customers considered as NPLs amounted to P2.3 billion and P1.6 billion, respectively.

As of December 31, 2010 and 2009, the Bank's loan portfolio includes non-risk loans totaling P1.1 billion and P1.3 billion, respectively.

Interest Income on Loans and Receivables

This account consists of:

	2010	2009
Receivable from customers:		
Term loans	P1,025,645,505	P1,140,563,117
Direct advances	838,513,427	1,429,554,885
Agri-agra loans	816,297,753	1,125,004,026
Bills purchased, import bills and trust receipts	227,292,179	327,942,974
Others	120,363,520	132,800,567

Forward

	2010	2009
	3,028,112,384	4,155,865,569
Unquoted debt securities and structured notes	365,601,178	556,124,985
Sales contract receivable	139,414,504	145,618,356
	P3,533,128,066	P4,857,608,910

As of December 31, 2010 and 2009, 53.78% and 65.34%, respectively, of the total receivables from customers were subject to periodic interest repricing, respectively. Peso-denominated loans earned annual fixed interest rates ranging from 2.5% - 16.75% in 2010 and from 3% to 18% in 2009.

Unquoted debt instruments bear fixed interest rates per annum ranging from 0.1% to 11.2% in 2010 and from 0.5% to 11.2% in 2009.

Sales contract receivables bear fixed interest rates ranging from 10.0% to 19.0% in 2010 and 2009.

11. Investment in an Associate

The details and movements of the Bank's equity investment in Bancommerce Investment Corporation (BIC) follow:

	2010	2009
Acquisition cost (24.25%-owned)	P71,740,650	P71,740,650
Accumulated equity in net loss		
Balance at beginning of year	(5,036,347)	(1,452,692)
Share in net loss for the year	(3,170,567)	(3,583,655)
Balance at end of year	(8,206,914)	(5,036,347)
	P63,533,736	P66,704,303

The following table shows the summarized financial information of BIC:

	2010	2009
Assets	P256,145,599	P268,624,120
Liabilities	2,051,189	692,170
Net Assets	254,094,410	267,931,950
Revenues	9,099,298	6,556,975
Net loss for the year	(13,074,504)	(14,777,958)

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

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

In its letter to BIC dated March 4, 2011, the SEC has directed BIC to pay a certain amount of penalty for failure to maintain the required minimum capital requirement of P300 million for investment houses as set forth in Section 3(A)(iv) of the Omnibus Rules and Regulations for Investment Houses and Universal Banks Registered As Underwriters of Securities, in relation to Section 11 thereof, since the 3rd quarter of 2008.

In its letter dated March 18, 2011, BIC requested SEC for reconsideration, and among others, to give it sufficient time to cure its regulatory capital deficiency. BIC's management believes that it can generate sufficient funds through its revenues from its recent loan advisory arrangements to meet the required regulatory capital and continue as a going concern. As of December 31, 2010 and 2009, BIC's outstanding capital amounted to P254.1 million and P267.9 million, respectively.

12. Property and Equipment

The movements in property and equipment are as follows:

	December 31, 2010		
At Cost	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at January 1	P1,192,810,235	P379,948,372	P1,572,758,607
Additions	191,729,769	90,846,446	282,576,215
Disposals and others	(52,100,465)	-	(52,100,465)
Balance at December 31	1,332,439,539	470,794,818	1,803,234,357
Accumulated depreciation and amortization			
Balance at January 1	795,708,306	220,831,305	1,016,539,611
Depreciation and amortization	112,372,375	38,102,964	150,475,339
Disposals and others	(46,251,759)	54,015,928	7,764,169
Balance at December 31	861,828,922	312,950,197	1,174,779,119
Net book value at December 31	P470,610,617	P157,844,621	P628,455,238

At Appraised Values	Note	Land	Buildings	Total
		December 31, 2010		
Revalued amount				
Balance at January 1		P370,166,237	P833,553,149	P1,203,719,386
Additions	33	-	569,018,482	569,018,482
Disposals		(160,659,804)	(125,921,648)	(286,581,452)
Balance at December 31		209,506,433	1,276,649,983	1,486,156,416
Accumulated depreciation				
Balance at January 1		-	372,176,509	372,176,509
Depreciation		-	45,941,152	45,941,152
Disposals and others		-	(95,485,537)	(95,485,537)
Balance at December 31		-	322,632,124	322,632,124
Allowance for impairment losses	15	22,059,640	1,643,223	23,702,863
Net book value at December 31		P187,446,793	P952,374,636	P1,139,821,429

At Cost	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
	December 31, 2009		
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

At Appraised Values	Note	Land	Buildings	Total
		December 31, 2009		
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

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 2010.

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

	December 31, 2010			December 31, 2009		
	Land	**Buildings**	**Total**	Land	Buildings	Total
Cost	**P106,861,617**	**P1,143,845,915**	**P1,250,707,532**	P140,304,309	P585,892,149	P726,196,458
Accumulated depreciation	**-**	**(251,107,669)**	**(251,107,669)**	-	(100,805,531)	(100,805,531)
	P106,861,617	**P892,738,246**	**P999,599,863**	P140,304,309	P485,086,618	P625,390,927

13. **Investment Properties**

The movements in investment properties are as follows:

	Note	Land	Buildings	Total
		December 31, 2010		
Cost				
Balance at January 1		P3,647,175,967	P1,004,831,850	P4,652,007,817
Additions		331,430,767	69,147,677	400,578,444
Reclassification		(249,398,825)	(296,407,834)	(545,806,659)
Disposals and others		(250,560,369)	(113,874,892)	(364,435,261)
Balance at December 31		3,478,647,540	663,696,801	4,142,344,341
Accumulated depreciation				
Balance at January 1		-	180,265,278	180,265,278
Depreciation		-	31,682,579	31,682,579
Disposals and others		-	(21,349,411)	(21,349,411)
Balance at December 31		-	190,598,446	190,598,446
Allowance for impairment losses	15	-	297,841,917	297,841,917
Net book value at December 31		P3,478,647,540	P175,256,438	P3,653,903,978

	Note	Land	Buildings	Total
		December 31, 2009 (As Restated- see Note 37)		
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	-	417,516,427	417,516,427
Net book value at December 31		P3,647,175,967	P407,050,145	P4,054,226,112

As of December 31, 2010 and 2009, the aggregate fair value of the Bank's investment properties amounted to P4.7 billion and P6.0 billion, respectively, or an increment of P1.1 billion and P1.8 billion over their net carrying value as of December 31, 2010 and 2009, 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 where the investment properties are located 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:

	2010	2009
Gain on assets sold	**P74,727,445**	P157,950,789
Gain on foreclosure	**92,569,599**	103,815,242
	P167,297,044	P261,766,031

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, 2010 and December 31, 2009, the outstanding liability to BSP amounted to P1.3 billion and P1.7 billion, respectively. The carrying value of investment properties and property and equipment used as collateral amounted to P865.4 million and P1.3 billion as of December 31, 2010 and 2009, respectively. The total appraised value of these properties amounted to P924.2 million and P1.7 billion as of December 31, 2010 and 2009, respectively.

Rental income on investment properties (included in "Miscellaneous income" account in the statement of income) in 2010 amounted to P12.0 million.

Direct operating expenses on investment properties that generated rental income (included under "Litigation and acquired assets expenses" in 2010 and 2009 amounted to P1.2 million and P1.9 million, respectively. Direct operating expenses on investment properties that did not generate rental income (included under "Litigation and acquired assets expenses") in 2010 and 2009 amounted to P154.5 million and P192.5 million, respectively.

14. Other Assets

This account consists of:

	Note	2010	2009 (As Restated - see Note 37)
Deferred charges - loss on sale to an SPV		P1,924,629,922	P1,924,629,922
Noncurrent assets held for sale		545,806,659	-
Software costs - net		160,979,452	176,689,830
Deferred tax assets - net	30	42,946,415	35,214,397
Retirement asset		2,263,568	-
Miscellaneous assets		4,914,925,864	4,795,820,426
		7,591,551,880	6,932,354,575
Less allowance for impairment losses	15	2,324,939,235	1,751,834,709
		P5,266,612,645	P5,180,519,866

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, which has been deferred. 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 in 2010 and 2009.

Software Costs

Movements in software costs are as follows:

	2010	2009
Cost		
Balance at January 1	P266,033,583	P225,644,041
Additions	25,153,736	76,763,189
Disposals	(25,512,798)	(36,373,647)
Balance at end of year	265,674,521	266,033,583
Accumulated amortization		
Balance at January 1	89,343,753	89,742,212
Amortization for the year	40,173,829	35,975,089
Disposals	(24,822,513)	(36,373,548)
Balance at end of year	104,695,069	89,343,753
Net book value	P160,979,452	P176,689,830

Miscellaneous Assets

This account includes NPAs amounting to P4.5 billion as of December 31, 2010 and 2009, 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, 2010 and 2009, allowance for impairment losses on these NPAs amounted to P1.4 billion and P1.2 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, 2010					
	Loans and Receivables	AFS Securities	Property and Equipment	Investment Properties	Other Assets	Total
Balance at beginning of year, as restated	P4,533,853	P1,036,611	P23,703	P417,517	P1,751,835	P7,763,519
Provisions charged (recoveries credited) to operations	1,381,116	(427,480)	-	(169,674)	400,183	1,184,145
Provisions charged to surplus	-	-	-	-	170,860	170,860
Reclassifications	(204,485)	152,425	-	49,999	2,061	-
Reversals	(415,929)	-	-	-	-	(415,929)
Balance at end of year	P5,294,555	P761,556	P23,703	P297,842	P2,324,939	P8,702,595

	December 31, 2009 (As Restated, see Note 37)					
	Loans and Receivables	AFS Securities	Property and Equipment	Investment Properties	Other Assets	Total
Balance at beginning of year	P3,789,998	P896,476	P23,703	P376,276	P1,422,809	P6,509,262
Provisions charges to operations	743,855	140,135	-	41,241	227,705	1,152,936
Provisions charged to surplus	-	-	-	-	170,860	170,860
Reclassifications	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-
Others	-	-	-	-	(69,539)	(69,539)
Balance at end of year	P4,533,853	P1,036,611	P23,703	P417,517	P1,751,835	P7,763,519

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

	December 31, 2010					
	Direct Advances	Term Loans	Agri-agra Loans	Bills Purchased, Import Bills, and Trust Receipts	Others	Total
Balance at beginning of year, as restated	P407,002,925	P2,298,696,779	P397,757,520	P141,908,117	P1,288,487,999	P4,533,853,340
Provisions (recoveries)	1,381,116,743	-	-	-	-	1,381,116,743
Reclassifications	(204,486,000)	-	-	-	-	(204,486,000)
Write-offs	-	-	-	-	-	-
Reversals	(415,929,459)	-	-	-	-	(415,929,459)
Balance at end of year	P1,167,704,209	P2,298,696,779	P397,757,520	P141,908,117	P1,288,487,999	P5,294,554,624
Individual impairment						P4,163,113,781
Collective impairment						1,131,440,843
						P5,294,554,624
Gross amount of loans, individually determined to be impaired						P3,115,410,464

	December 31, 2009 (As Restated, see Note 37)					
	Direct Advances	Term Loans	Agri-agra Loans	Bills Purchased, Import Bills, and Trust Receipts	Others	Total
Balance at beginning of year	P392,310,155	P1,965,845,400	P272,589,009	P156,224,464	P1,003,029,599	P3,789,998,627
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	P2,298,696,779	P397,757,520	P141,908,117	P1,288,487,999	P4,533,853,340
Individual impairment						P4,072,715,358
Collective impairment						461,137,982
						P4,533,853,340
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

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

	December 31, 2010			December 31, 2009 (As Restated, see Note 37)		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total
Balance at beginning of year	**P4,072,715,358**	**P461,137,982**	**P4,533,853,340**	P3,383,064,698	P406,933,929	P3,789,998,627
Provisions	**710,813,882**	**670,302,861**	**1,381,116,743**	689,650,660	54,204,053	743,854,713
Reclassifications	**(204,486,000)**	**-**	**(204,486,000)**	-	-	-
Reversals	**(415,929,459)**	**-**	**(415,929,459)**	-	-	-
Balance at end of year	**P4,163,113,781**	**P1,131,440,843**	**P5,294,554,624**	P4,072,715,358	P461,137,982	P4,533,853,340

16. Deposit Liabilities

Under existing BSP regulations, non-FCDU deposit liabilities are subject to statutory and liquidity reserve requirements of 8.0% and 11.0%, respectively, and 2% of statutory reserves for deposit substitutes. As of December 31, 2010 and 2009, the Bank is in compliance with these reserve requirements.

Financial assets available for meeting these reserve requirements as of December 31, 2010 and 2009, are as follows:

	Note	**2010**	2009
Cash and other cash items		**P882,737,695**	P793,171,479
Due from BSP		**4,428,992,188**	4,881,455,502
Debt securities	*10*	**5,519,181,171**	7,156,624,237
		P10,830,911,054	P12,831,251,218

Interest expense on deposit liabilities are as follows:

	2010	2009
Demand	**P3,656**	P96,337
Savings	**1,089,937,342**	2,068,085,691
Time	**929,876,923**	968,409,414
	P2,019,817,921	P3,036,591,442

17. Bills Payable and Securities Sold Under Repurchase Agreements

This account consists of borrowings from:

	Note	**2010**	2009
Bills payable:			
BSP	*13, 20, 34*	**P744,217,688**	P744,217,688
PDIC	*9, 20, 34*	**605,256,852**	568,117,368
Banks and other financial intermediaries	*31*	**2,238,343**	210,519,350
SSURA	*31*	**-**	778,000,000
Rediscounting facility		**591,225,813**	560,176,799
		P1,942,938,696	P2,861,031,205

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 included concessions from PDIC as well as the BSP, but it likewise included the requirement from the principal stockholders of the Bank to infuse new capital. This infusion of new capital was complied with.

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, 2010 and 2009, receivables from customers using the rediscounting facility amounted to P591.2 million and P560.2 million, respectively.

Interest Expense

Peso-denominated bills payable are subject to annual interest rates ranging from 4.0% to 16% and from 0.5% to 16.0% for borrowings in 2010 and 2009, respectively. Foreign currency-denominated bills payable are subject to annual interest rates ranging from 0.3% to 2.0% and from 0.7% to 5.5% in 2010 and 2009, respectively.

Interest expense on bills payable and SSURA amounted to P171.9 million and P282.9 million in 2010 and 2009, respectively.

18. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Note	**2010**	2009
Financial:			
Accrued interest payable		**P172,415,953**	P357,209,080
Accrued insurance		**92,149,100**	90,343,056
Accrued taxes and licenses		**33,108,786**	23,100,626
Accrued utilities expense		**13,941,849**	4,326,072
Other expenses		**246,359,208**	141,585,884
		557,974,896	616,564,718
Nonfinancial:			
Accrued retirement liability	*27*	**-**	19,793,582
Accrued taxes payable		**755,757**	21,095,575
Accrued other employee and other benefits		**93,177,147**	67,575,665
Accrued lease liability		**18,455,746**	14,525,720
		112,388,650	122,990,542
		P670,363,546	P739,555,260

19. Subordinated Debts

On August 10, 2005, the Bank issued P1.2 billion 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. On August 10, 2010, the Bank exercised the call option and paid-off the note holders on the P1.2 billion unsecured subordinated notes.

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 debts amounted to P112.5 million and P168.7 million for the year ended December 31, 2010 and 2009, respectively.

20. Other Liabilities

This account consists of:

	Note	**2010**	2009
Unearned income		**P1,172,743,148**	P1,209,882,632
Accounts payable		**680,753,547**	797,404,484
Due to preferred shareholders	*22*	**320,191,145**	320,191,145
Withholding tax payable		**53,168,855**	58,739,335
Due to Treasurer of the Philippines		**4,636,967**	6,919,969
Miscellaneous		**425,224,835**	367,073,928
		P2,656,718,497	P2,760,211,493

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 income.

As discussed in Note 34 to the financial statements, the Bank buys back the dacion properties from BSP only when these are subsequently sold and sales proceeds are 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, 2010 and 2009, accounts payable to BSP (included under "Accounts payable" account) amounted to P414.9 million and P552.7 million, respectively.

21. Maturity Profile of Assets and Liabilities

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

		2010			2009 (As Restated)		
	Note	Less than 12 months	Over 12 Months	Total	Less than 12 months	Over 12 Months	Total
Financial Assets							
COCI		P959,134	P -	P959,134	P862,601	P -	P862,601
Due from BSP		8,721,631	-	8,721,631	8,503,132	-	8,503,132
Due from other banks		8,813,953	-	8,813,953	1,651,638	-	1,651,638
Interbank loans receivable and SPURA	*7*	15,582,327	-	15,582,327	13,354,879	-	13,354,879
Financial assets at FVPL:	*8*						
Derivative assets		236,077	-	236,077	422,056	-	422,056
Government securities held-for-trading		-	50,669	50,669	283,789	143,456	427,245
Private Debt Securities		-	1,129	1,129	-	189,333	189,333
Private equity securities held-for-trading		-	-	-	-	25,215	25,215
AFS investments-gross:	*9*						
Quoted government securities		-	6,786,452	6,786,452	-	4,854,301	4,854,301
Quoted other debt securities			372,978	372,978	-	543,830	543,830
Unquoted other debt securities		-	7,862,390	7,862,390	-	9,381,724	9,381,724
Unquoted equity securities		-	499,125	499,125	-	651,536	651,536
HTM investments:	*9*						
Quoted government securities		-	10,144,625	10,144,625	-	8,867,451	8,867,451
Quoted other debt securities		-	-	-	-	1,923,951	1,923,951
Loans and receivables - gross:	*10*						
Receivable from customers:							
Term Loans		11,213,920	2,043,038	13,256,958	13,169,945	1,457,533	14,627,478
Direct Advances		7,997,566	1,457,058	9,454,624	2,144,193	12,482,653	14,626,846
Agri-agra loans		3,918,863	1,348,046	5,266,909	2,131,654	2,884,739	5,016,393
Bills purchased, import bills and trust receipts		1,942,447	222,047	2,164,494	2,474,445	103,085	2,577,530
Others		88,464	1,244,237	1,332,701	62,911	884,826	947,737
Structured notes		140,269	492,133	632,402	153,999	540,305	694,304
Unquoted debt securities		197,353	4,871,253	5,068,606	195,030	4,813,904	5,008,934
Accrued interest receivable		835,759	293,058	1,128,817	1,147,218	74,479	1,221,697
Sales contract receivable		1,045,903	882,678	1,928,581	38,950	1,899,744	1,938,694
Accounts receivable		1,117,106	-	1,117,106	979,010	-	979,010
RCOCI		49,585	-	49,585	177,401	-	177,401
		62,860,357	38,570,916	101,431,273	47,752,851	51,722,065	99,474,916

Forward

		2010			2009 (As Restated)		
	Note	Less than 12 months	Over 12 Months	Total	Less than 12 months	Over 12 Months	Total
Nonfinancial Assets - at gross							
Property and equipment	*12*	-	3,289,391	3,289,391	-	2,776,478	2,776,478
Investment properties	*13*	-	4,142,344	4,142,344	-	4,652,008	4,652,008
Other assets	*14*	-	7,696,247	7,696,247	-	7,021,698	7,021,698
		-	15,127,982	15,127,982	-	14,450,184	14,450,184
		P62,860,357	P53,698,898	116,559,255	P47,752,851	P66,172,249	113,925,100
Less:							
Allowance for impairment and credit losses	*15*			8,702,595			7,763,519
Accumulated depreciation and amortization	*12, 13, 14*			1,792,704			1,658,325
Unearned interest	*10*			233,655			1,415,795
Total				P105,830,301			P103,087,461

	December 31, 2010			2009		
	Less than 12 months	Over 12 Months	Total	Less than 12 months	Over 12 Months	Total
Financial liabilities						
Deposit liabilities						
Demand	P13,776,291	P -	P13,776,291	P11,499,045	P -	P11,499,045
Savings	37,549,963	-	37,549,963	47,685,734	-	47,685,734
Time	33,865,902	1,996,142	35,862,044	26,093,207	1,538,000	27,631,207
Bills payable and SSURA	91,687	1,851,252	1,942,939	1,073,677	1,787,354	2,861,031
Manager's checks and acceptances payable	254,939	-	254,939	364,243	-	364,243
Accrued interest and other expenses	557,975	-	557,975	616,565	-	616,565
Subordinated debt	299,059	-	299,059	1,196,995	298,150	1,495,145
Financial liabilities at FVPL	-	414,300	414,300	-	1,351,925	1,351,925
Other liabilities	1,005,582	-	1,005,582	1,124,516	-	1,124,516
	87,401,398	4,261,694	91,663,092	89,653,982	4,975,429	94,629,411
Nonfinancial liabilities						
Accrued taxes and other expense payable	112,389	-	112,389	21,096	101,895	122,991
Other liabilities	-	1,651,136	1,651,136	-	1,635,695	1,635,695
	112,389	1,651,136	1,763,525	21,096	1,737,590	1,758,686
	P87,513,787	P5,912,830	P93,426,617	P89,675,078	P6,713,019	P96,388,097

22. Capital

The following table shows the movements in the number of common shares in 2010 and 2009:

	2010	2009
Beginning balance	52,500,000	29,158,888
Issuance/subscription of stock	59,741,113	23,341,112
Total issued and subscribed	112,241,113	52,500,000

As of December 31, 2010 and 2009, the Bank has no outstanding preferred shares. However, the Bank has outstanding liability for the unpaid portion of the redemption price of preferred shares amounting to P320.2 million which is recorded as 'Due to preferred shareholders' account under "Other liabilities" in Note 20 to the financial statements. As of December 31, 2010 and 2009, the related sinking fund amounting to P112.7 million and P28.7 million, respectively, has been set up to fund the settlement of this liability.

On April 8, 2010, the SEC has approved the Bank's application for increase in capital stock from P6 billion divided into 52.5 million common shares; 7.5 million preferred shares both with the par value of P100 each, to P22 million divided into 212.5 million common shares; 7.5 million preferred shares both with the par value of P100 each. The related amendment to the Articles of Incorporation of the Bank relative to its proposed increase in authorized capital stock from P6 billion to P22 billion, was approved by the BSP and the SEC on March 26, 2010 and April 8, 2010, respectively.

During its meeting on January 18, 2011, the BOD of the Bank passed a resolution approving the following:

- the sale of fully paid shares of Valiant Ventures & Development Holdings, Inc. (Valiant) in the Bank to San Miguel Properties, Inc. (SMPI) and San Miguel Corporation Retirement Plan (SMCRP) amounting to 2,800,000 shares and 1,972,735 shares, respectively; and

- the assignment of subscription rights of Valiant to SMPI amounting to 523,726 shares (Tranche 1) and 4,713,539 shares (Tranche 2).

In this connection, the Bank will secure the approval of the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP) for such sale of shares and assignment of subscription of the shares of Valiant. This is mandated in the BSP's Manual of Regulations for Banks (MORB) since the total shareholdings of Valiant entitles it to a board seat. The Board has also agreed that the sale of shares and assignment of subscription rights be recorded in the stock and transfer book of the Bank only after the approval of the MB has been obtained.

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. In 2009, San Miguel Properties, Inc. (SMPI) and San Miguel Corporation (SMC) Retirement Plan infused additional capital amounting to P3.28 billion in the form of paid-up common stock. On February 18, 2010 and March 1, 2010, major stockholders infused P271.9 million and P2.1 billion, respectively, into the Bank in the form of advances for future stock subscriptions, which shall be treated as part of the Bank's paid-up capital upon the SEC's approval thereon and on the increase in the Bank's authorized capital stock.

The Bank has complied in full with regulatory capital requirements as of December 31, 2010 and 2009, based on the CAR reports it submitted to the BSP which provided that the reported adjusted qualifying capital of P14.3 billion and P9.5 billion, respectively, exceeded the required minimum regulatory capital of P2.4 billion as determined by the Bank. As of December 31, 2010 and 2009, based on the CAR reports submitted to BSP, the Bank's CAR of 16.8% and 15.6%, 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.

The BSP sets and monitors compliance to minimum capital requirements for the Bank. In implementing current capital requirements, BSP has issued Circular 538 which implemented the Revised Risk-Based Capital Adequacy Framework under Basel II effectively July 1, 2007. It requires the Bank to maintain a prescribed risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk weighted assets) of not less than 10%. The Bank is also required to maintain a minimum Tier 1 capital ratio of 6%.

	2010	2009
Tier 1 capital	P13,838	P10,396
Tier 2 capital	794	2,281
Gross qualifying capital	14,632	12,677
Less required deductions	345	63
Total qualifying capital	P14,287	P12,614
Risk weighted assets	85,118	81,013
CAR	16.8%	15.6%

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) calculation of reserves for allowance for credit losses on loans and receivables;
b) nonperforming assets and operating losses of TRB capitalized as miscellaneous assets and subject to staggered allowance provisioning through offset of net yield earned from the financial assistance;
c) deferral of losses on sold NPLs to SPV Company; and
d) accounting for investment properties.

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

	2010	2009 (As Restated)
Return on average equity (ROE)	6.55%	13.57%
Return on average assets (ROA)	0.60%	0.62%
Net interest margin on average earning assets	3.53%	3.66%

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

	2010	2009 (As Restated - see Note 37)
Reserve for trust business	P65,680,876	P62,302,856
Reserve for self-insurance	60,000,000	40,000,000
	P125,680,876	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.

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 on Trading and Investment Securities

This account consists of:

	2010	2009
Financial assets at FVPL:		
Government securities held for trading	P46,086,178	P123,032,655
Quoted other debt securities	3,573,182	2,042,377
Equity securities	4,883,081	3,292,163
AFS securities:		
Quoted government securities	366,375,508	206,356,094
Quoted other debt securities	195,360,695	69,620,921
HTM investments:		
Quoted government securities	826,415,217	879,011,635
Quoted other debt securities	32,948,947	50,659,362
	P1,475,642,808	P1,334,015,207

Foreign currency-denominated financial assets at FVPL bear EIRs ranging from 1.3% to 7.5% and from 1.8% to 8.4% in 2010 and 2009, respectively. Peso-denominated financial assets at FVPL bear EIRs ranging from 0.7% to 10.6% and from 3.5% to 7.9% for the year ended December 31, 2010 and 2009, respectively.

Foreign currency-denominated AFS debt securities bear EIRs ranging from 2.15% to 6.09% and from 2.4% to 7.8 in 2010 and 2009, respectively. Peso-denominated AFS debt securities bear EIRs ranging from 0.36% to 4.31% and from 6.4% to 8.0%in 2010 and 2009, respectively.

Foreign currency-denominated HTM instruments bear EIRs ranging from 2.2% to 7.6% in 2010 and 2009. Peso-denominated HTM securities bear EIRs ranging from 7.22% to 14.5% and from 5.4% to 14.5% in 2010 and 2009, respectively.

25. Service Charges, Fees and Commission

This account consists of:

	2010	2009
Service charges	P244,829,574	P259,416,390
Trust income	26,190,089	10,994,283
Penalty charges	23,246,122	24,687,515
Letters of credit fees	21,605,839	30,158,229
Acceptance fees	2,469,382	3,646,967
Others	17,518,733	18,447,861
	P335,859,739	P347,351,245

26. Trading and Investment Securities Gains (Losses)

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

	2010	2009
Financial assets at FVPL:		
Debt securities	(P88,206,753)	P58,456,880
Derivatives	118,563,214	817,488,599
AFS securities	830,241,907	219,111,839
	P860,598,368	P1,095,057,318

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 November 24, 2010. 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, 2010 and 2009, the principal actuarial assumptions used in determining retirement benefits liability for the Bank's retirement plan are shown below:

	2010	2009
Average working life	13	13
Discount rate	8.6%	9.8%
Expected rate of return on assets	7.0%	7.0%
Future salary increases	8.0%	7.0%

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

	2010	2009
Current service cost	P32,307,845	P29,431,114
Interest cost	33,426,093	29,701,097
Expected return on plan assets	(21,653,524)	(17,544,832)
	P44,080,414	P41,587,379

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

	2010	2009
Present value of defined benefits obligation	P335,462,126	P341,082,584
Fair value of plan assets	(363,947,210)	(309,336,057)
Present value of unfunded obligation	(28,485,084)	31,746,527
Unrecognized actuarial gains (losses)	26,221,516	(11,952,945)
Net retirement benefits liability (asset)	(P2,263,568)	P19,793,582

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

	2010	2009
Balance at beginning of year	P19,793,582	P39,719,186
Retirement benefits expense	44,080,414	41,587,378
Contribution paid by the Bank	(66,137,564)	(61,512,982)
Balance at end of year	(P2,263,568)	P19,793,582

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

	2010	2009
Balance at beginning of year	P341,082,584	P302,312,592
Current service cost	32,307,845	29,431,114
Interest cost	33,426,093	29,701,097
Benefits paid	(47,666,206)	(20,362,219)
Actuarial gain on obligation	(23,688,190)	-
Balance at end of year	P335,462,126	P341,082,584

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

	2010	2009
Balance at beginning of year	P309,336,057	P250,640,462
Expected return on plan assets	21,653,524	17,544,832
Contribution paid by the Bank	66,137,564	61,512,982
Benefits paid	(47,666,206)	(20,362,219)
Actuarial gain on plan assets	14,486,271	-
Balance at end of year	P363,947,210	P309,336,057

The actual return on plan assets amounted to P36.14 million and P17.54 million for the year ended December 31, 2010 and 2009, respectively.

The Bank expects to contribute P42 million to its defined benefits retirement plan in 2011.

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

	2010	2009
Government securities	72.0%	77.2%
Equity instruments	4.7%	7.0%
Cash and other assets	23.3%	15.8%
	100.0%	100.0%

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

	2010	2009	2008	2007
Present value of the defined benefit obligation	P335,462,126	P341,082,584	P302,312,592	P345,808,489
Fair value of plan assets	363,947,210	309,336,057	250,640,462	233,303,038
Deficit	(28,485,084)	31,746,527	51,672,130	112,505,451
Experience adjustment on plan liabilities	(89,327,676)	-	(76,220,373)	44,918,128
Experience adjustment on plan assets	-	-	(130,928)	7,230,915

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 "Rent and utilities" account in the statement of income) amounted to P167.2 million and P175.0 million in 2010 and 2009, respectively.

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

	2010	2009
Within one year	P126.9	P137.0
After one year but not more than five years	260.0	378.4
After five years	77.4	104.0

Bank as Lessor
The Bank entered into commercial property leases for office space. These non-cancellable leases have remaining lease terms ranging from 1 to 6 years. As of December 31, 2010 and 2009, there is no contingent rental income. Rent income of the Bank related to these property leases amounting to P14.0 million and P13.3 million in 2010 and 2009, respectively, are shown under "Miscellaneous income" account in the statement of income.

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

	2010	2009
Within one year	P1.8	P6.3
After one year but not more than five years	1.7	1.0
After five years	0.4	-

29. Miscellaneous Expenses

	Note	2010	2009
Insurance		P182,800,000	P171,156,463
Entertainment, amusement and recreation	*30*	107,088,453	90,507,667
Litigation and acquired assets		104,341,950	103,272,096
Management and professional fees		87,923,481	56,887,600
Communications		63,290,619	58,979,117
Marketing		61,812,363	75,429,173
Messengerial services		51,190,842	40,741,268
Transportation and travel		46,774,314	37,395,032
Bank charges		43,639,893	35,309,884
Forms and supplies		40,522,795	25,795,378
Supervision and examination fee		29,703,985	28,741,802
Others		76,125,938	92,283,196
		P895,214,633	P816,498,676

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 income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST).

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.

The corporate income tax rate is 30.0%. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.0% of interest income subjected to final tax. It also provides for the change in GRT rate from 5.0% to 7.0%.

The regulations also provide for MCIT of 2.0% on modified gross income and allow NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a 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 P58.9 million in 2010 and P12.2 million in 2009. EAR expense is included under "Miscellaneous expenses" account in the statement of income (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.

Income tax expense consists of:

	2010	2009
Current:		
Final	P220,278,967	P200,621,313
MCIT	41,079,315	24,058,500
	261,358,282	224,679,813
Deferred	(7,732,018)	(4,209,550)
	P253,626,264	P220,470,263

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

	2010	2009 (As Restated - see Note 37)
Income before income tax expense	P882,795,846	P837,811,212
Income tax at statutory rate	P264,838,754	P251,343,363
Additions to (reductions in) income taxes resulting from the tax effects of:		
Changes in unrecognized deferred tax assets	248,049,307	20,391,167
Nontaxable income	(185,452,094)	(242,641,899)
FCDU loss (income)	(179,705,053)	206,774,866
Nondeductible expenses	112,503,060	55,367,811
Tax paid income	(64,187,653)	(124,110,491)
Others	57,579,943	53,345,446
Effective income tax	P253,626,264	P220,470,263

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

	2010	2009
Deferred tax asset on allowance for impairment and credit losses	P624,307,025	P715,402,689
Deferred tax liability on:		
Valuation gain on derivatives and financial assets carried at FVPL	(297,498,278)	(302,754,755)
Unrealized gain on foreclosed properties	(173,744,154)	(201,552,752)
Profits on investment properties sold under installments	(75,127,866)	(65,909,982)
Revaluation increment on property	(70,331,488)	(96,246,009)
Unrealized foreign exchange loss (gain)	42,209,007	(5,682,584)
Unwinding of interest on impaired loans	(6,585,571)	(6,585,571)
Unamortized transaction cost on subordinated debt	(282,260)	(1,456,639)
	(581,360,610)	(680,188,292)
Net deferred tax assets	P42,946,415	P35,214,397

Management believes that certain future deductible items may not be realized in the near foreseeable future as future taxable income may not be sufficient for the related tax benefits to be realized. Accordingly, the Bank did not set up deferred tax assets on the following temporary differences and carry forward benefits of NOLCO and MCIT:

	December 31, 2010	
	Deductible Temporary Differences	Deferred Tax Assets
Allowance for impairment and credit losses	P4,768,794,892	P1,430,638,468
NOLCO	610,859,376	183,257,813
Accumulated loss on foreclosure	736,908,680	221,072,604
Accumulated depreciation on investment properties	201,435,152	60,430,546
Accrued employee benefits and unamortized past service cost	189,562,059	56,868,618
MCIT	93,718,142	93,718,142
Accrued rent expense	33,190,918	9,957,275
Unrealized loss on investments and derivatives	386,600,911	115,980,273
Others	390,039,602	117,011,881
	P7,411,109,732	P2,288,935,620

	December 31, 2009 (As Restated)	
	Deductible Temporary Differences	Deferred Tax Assets
Allowance for impairment and credit losses	P3,739,797,107	P1,121,939,132
NOLCO	1,619,962,273	485,988,682
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	390,039,602	117,011,881
	P6,995,174,721	P2,154,602,606

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

NOLCO

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2005	P1,492,573,462	(P1,492,573,462)	P -	2010*
2007	413,175,698	-	413,175,698	2012*
2008	197,683,678	-	197,683,678	2011
	P2,103,432,838	(P1,492,573,462)	P610,859,376	

** 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 for a period of five (5) consecutive taxable years.*

MCIT

Inception Year	Amount	Expired	Balance	Expiry Year
2007	P27,432,873	(P27,432,873)	P -	2010
2008	28,580,327	-	28,580,327	2011
2009	24,058,500	-	24,058,500	2012
2010	41,079,315	-	41,079,315	2013
	P121,151,015	(P27,432,873)	P93,718,142	

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, 2010 and 2009:

	Note	2010	2009
Contingent Assets:			
Future/spot exchange bought		P876,800,000	P10,440,320,000
Outward bills for collection		256,287,198	270,068,626
Total		P1,133,087,198	P10,710,388,626
Commitments and Contingent Liabilities:			
Trust department accounts	32	P11,417,248,925	P3,932,085,555
Future/spot exchange sold		7,233,600,000	10,052,890,000
Unused commercial letters of credit		940,625,957	1,328,181,789
Late deposits/payments received		158,099,191	103,471,834
Outstanding guarantees		151,847,463	22,142,996
Items held for safekeeping		28,389	30,531
Securities/items held as collateral		5,861	5,702
Fixed income securities sold		-	142,296,017
Total		P19,901,455,786	P15,581,104,424

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	
	2010	2009	2010	2009	2010	2009
AFS investments	P -	P347,269	P -	P347,269	P -	P296,000
HTM investments	1,825,405	2,395,712	3,032,770	2,395,712	605,257	1,050,117
	P1,825,405	P2,742,981	P3,032,770	P2,742,981	P605,257	P1,346,117

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 P11.4 billion and P3.9 billion as of December 31, 2010 and 2009, 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 P118 million and P54.9 million, respectively, are deposited with BSP, as of December 31, 2010 and 2009, 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:

	2010	2009
Total outstanding DOSRI loans	P44,127,410	P96,124,876
Percent of DOSRI loans to total loans	0.00	0.20%
Percent of unsecured DOSRI loans to total DOSRI loans	0.0%	0.0%
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 deposits and interest expense in respect of related parties included in the Bank's financial statements are as follows:

	2010	2009
Deposit liabilities	P16,812,276,689	P6,796,425,364
Interest expense	99,845,242	258,695,290

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.

However, BSP Circular No. 700 was issued on December 6, 2010 amending the regulations on Single Borrower's Limit. Per amendment, the total amount of loans, credit accommodations and guarantees may be increased by an additional twenty-five percent (25%) of the Bank's net worth provided those are made for the purpose of undertaking infrastructure and/or development projects under the Public-Private Partnership Program of the government duly certified by the Secretary of Socio-Economic Planning; Provided, further that the total exposures of the Bank to any borrower pertaining to the above-mentioned projects shall not exceed twenty-five percent (25%) of the Bank's net worth and that it shall only be allowed for a period of three (3) years from the effectivity of the Circular. BSP Circular No. 700 is effective on December 21, 2010.

In 2010, the Bank purchased from SMPI total of 5 floors, Units A,B,C of ground floor, upper and lower penthouse at SMPC. Total purchase price amounted to P414.8 million. The Bank's relocation is a strategic move to generate a substantial portion of existing and prospective business through its alliance with the San Miguel Group and its value chain and strengthen the Bank's image as a strong, highly liquid, profitable and growing banking institution.

The Bank engaged SMPI to provide services related to asset and project management, architectural and consultancy services. The total contract price is P43.0 million. As of December 31, 2010, recognized expense and accrued liability relating to these contracts amounted to P27.9 million booked under "Accrued expenses" account as of December 31, 2010.

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.

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 income.

For 2010, BANGE remitted to Bank of Commerce FCFA 250 million equivalent to US$482,000 at the time of remittance.

Compensation of Key Management Personnel of the Bank
The remuneration of directors and other members of key management for December 31, 2010 and 2009 follow:

	2010	2009
Short-term employee benefits	P240,294,893	P177,441,210
Post-employment benefits	16,782,019	17,733,550
	P257,076,912	P195,174,760

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 BSP Circular No. 293. The 90-day notice requirement on branch relocation has been waived, and (c) availment of rediscounting facility window subject to present BSP regulations.

c. The Bank paid the outstanding emergency advances owed by TRB to BSP originally amounting to P2.4 billion through dacion en pago with mandatory buy-back agreement of certain assets of the Bank and TRB at a price set at 80.0% of the appraised value of those assets (see discussions on Settlement of Liabilities of TRB below).

d. The Bank arranged with PDIC a liquidity facility for the first year following the effectivity date in the amount not to exceed 10.0% of the assumed deposit liabilities of TRB to service unanticipated withdrawals by TRB depositors, subject to terms and conditions as may be imposed by PDIC.

Settlement of Liabilities of TRB
Part of the liabilities of TRB assumed by the Bank amounting to P2.4 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 to P2.3 billion fully settled the liabilities to BSP assumed by the Bank from TRB amounting to P2.4 billion at the time of dacion; the difference amounting to P102.0 million was credited to other deferred credits (ODC) account. Expenses incurred related to the dacion of properties were offset against ODC.

FAA
The summary of significant transactions related to the FAA entered into by the Bank with the PDIC, for acting as a "White Knight" by agreeing to the terms and conditions of the PSA with TRB, follows:

a. The PDIC granted the Bank a loan amounting to P1.8 billion (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:

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 2010 and 2009 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 2010 and 2009 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:

	2010	2009
Noncash operating activities:		
Restricted interbank loans receivables	**P15,000,000,000**	P11,793,121,808
Noncash investing activities:		
Additions to investment properties in settlement of loans	**50,569,186**	577,430,071
Increase in sales contract receivable from sale of investment properties	**222,058,109**	707,917,424
Noncash financing activities:		
Application of deposit for stock subscription for the issuance of common shares	**-**	1,000,769,600

36. 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 of 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.

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 2010, the Bank terminated several structured instruments with original investment amount of $21.0 million. The related gains or loss on termination of these financial instruments are included in Trading Gains or Losses account in the statement of income.

37. Restatements

In 2010, the Bank restated its December 31, 2009 financial statements to resolve the report qualification on the following items in the audit report dated March 16, 2010:

a. Charging to current operations in 2009 the amortization of deferred loss incurred relating to the sale of NPAs to an SPV in prior years.

b. 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.]

The Bank also reversed the excess appropriation of surplus reserves for settlement of the unpaid portion of the redemption price of the redeemed preferred shares.

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	Other Assets	Surplus Reserves	Surplus (Deficit)
December 31, 2008 balances, as previously reported	P10,218,753,743	P47,318,483,955	P4,241,871,420	P5,932,893,677	P -	(P3,019,297,428)
Qualification b	(409,194,612)	(229,521,204)	(85,966,581)	(52,227,626)	-	(776,910,023)
December 31, 2008 balances, as restated	P9,809,559,131	P47,088,962,751	P4,155,904,839	P5,880,666,051	P -	(P3,796,207,451)
December 31, 2009 balances, as previously reported	**P14,919,392,088**	**P42,095,896,707**	**P4,140,192,693**	**P5,884,235,784**	**P158,302,856**	**(P2,501,714,304)**
Qualification b	(524,611,354)	(229,521,204)	(85,966,581)	(52,227,626)	-	(892,326,765)
Reversal of appropriation of surplus reserves	-	-	-	-	(56,000,000)	56,000,000
December 31, 2009 balances, as restated	**P14,394,780,734**	**P41,866,375,503**	**P4,054,226,112**	**P5,832,008,158**	**P102,302,856**	**(P3,338,041,069)**

	Profit or Loss Accounts Affected	Net Income
For the year ended December 31, 2009 balances, as previously reported		P561,897,522
Qualification a	Impairment losses	170,860,169
Qualification b	Impairment losses	(115,416,742)
For the year ended December 31, 2009, as restated		P617,340,949

38. Supplementary Information Required Under RR 15-2010 of the Bureau of Internal Revenue

The Bureau of Internal Revenue (BIR) issued on November 25, 2010 Revenue Regulations (RR) 15-2010, *Amending Certain Provisions of Revenue Regulations No. 21-2002, as Amended, Implementing Section 6 (H) of the Tax Code of 1997, Authorizing the Commissioner of Internal Revenue to Prescribe Additional Procedural and/or Documentary Requirements in Connection with the Preparation and Submission of Financial Statements Accompanying Income Tax Returns*. Under the said RR, companies are required to provide, in addition to the disclosures mandated under PFRSs, and such other standards and/or conventions as may be adopted, in the notes to the financial statements, information on taxes, duties and license fees paid or accrued during the taxable year. The following is the tax information required under RR 15-2010 for the year ended December 31, 2010:

A. Gross Receipts Tax P275,326,182

B. Documentary Stamp Tax

on loan instruments	P148,258,590
on shares of stocks	33,132,910
on others	216,967,183
	P398,358,683

C. Withholding Taxes

Tax on compensation and benefits	P149,375,927
Creditable withholding taxes	30,601,915
Final withholding taxes	301,758,038
	P481,735,880

D. All Other Taxes (Local and National)

Other taxes paid during the year recognized under "Taxes and licenses" account under Other Expenses	
Real estate taxes	P721,366
License and permit fees	40,736,465
Others	1,079,055
	42,536,886
Other taxes paid during the year recognized under "Miscellaneous Expenses" account under Other Expenses	
Real estate taxes	12,563,990
	P55,100,876

E. Deficiency Tax Assessments

Period Covered	Amount
2002	P13,679,774
2003	7,753,753
	P21,433,527

The Bank is still waiting for the approval by the Commissioner of the abatement filed on January 27, 2006 for the closure of the deficiency tax assessment.

F. Tax Cases

As of December 31, 2010, the Company has the following tax cases:

a. CTA Level:

Year	Case No.	Total
1997	6668 CTA E.B. NO. 654	P11,946,819

On March 14, 2011, the Court of Tax Appeals En Banc rendered judgment in favor of the Bank. The petition for review was denied for lack of merit.

b. Supreme Court Level:

Year	Case No.	Total
1994	GR 175401	P3,385,038
1995	GR 175401	2,593,659
	Sub-Total	P5,978,697

Branch Directory

HEAD OFFICE

SAN MIGUEL PROPERTIES CENTRE
7 St. Francis Street, Mandaluyong City

MAKATI AREA

AYALA
G/F IAcademy Bldg. 6764 Ayala Avenue, Makati City

BUENDIA-PASONG TAMO
250 Sen. Gil Puyat Ave. cor. Pasong Tamo St., Legaspi Village, Makati City

LEGASPI-MAKATI
G/F Bloomingdale Bldg. 205 Salcedo St. Legazpi Village, Makati City

PASAY ROAD
808-A A. Arnaiz Avenue, San Lorenzo Village, Makati City

PASEO DE ROXAS
G/F Legaspi Towers 200 #107 Paseo de Roxas, Legaspi Village, Makati City

PASONG TAMO EXT.
Jannov Plaza Bldg. I 2295 Pasong Tamo Ext.,1231 Makati City

BEL-AIR
Unit 1-B, Eurocrest Bldg. 126 Jupiter St., Brgy. Bel-Air, Makati City

DELA COSTA-ALFARO
G/F Don Chua Lamko Building Dela Costa cor. Leviste St., Salcedo Village Makati City

BONIFACIO GLOBAL CITY
G/F Kensington Place Burgos Circle, Fort Bonifacio Taguig City

ROCKWELL
P1 Councourse level The Power Plant Mall, Rockwell Center, Makati City

SALCEDO
G/F Aguirre Building Tordesillas cor. H.V. dela Costa Sts., Salcedo Village, Makati City

METRO MANILA SOUTH AREA

ALABANG
Unit 6 El Molito II Bldg. Madrigal Avenue, Alabang, Muntlinlupa City

BICUTAN
35 Doña Soledad Ave., BetterLiving Subd., Paranaque City

LAS PIÑAS
Real Street, Alabang-Zapote Road Pamplona, Las Pinas City

NAIA
Naia Arrival Area Terminal 1, Pasay City

MAGALLANES
G/F Tritan Plaza Bldg. Paseo de Magallanes, Makati City

SOUTH SUPER HI-WAY
8383 Dr. A. Santos Avenue, Sucat Road, Paranaque City

SUCAT
Fortuna II Bldg., 8338 Dr. A. Santos Ave., Sucat, Paranaque City

SAN PEDRO
Pacita Commercial Complex, San Pedro, Laguna

DASMARIÑAS, CAVITE
Veluz-Frances Plaza Building Aguinaldo Highway, Dasmarinas,Cavite

ROSARIO
General Trias Drive Brgy. Poblacion Rosario, Cavite

MANILA CENRAL AREA

DASMARINAS-BINONDO
STP Bldg., Dasmariñas St. cor. Marquina St. Binondo, Manila

ELCANO
684 Elcano St., Binondo, Manila

JUAN LUNA
465 Juan Luna St., Binondo, Manila

SOLER
1004 Reina Regente cor. Soler St. Binondo, Manila

T. ALONZO
718-720 T. Alonzo St. Sta. Cruz, Manila

TUTUBAN
Units M2-60 21 and 22 Ground Center Mall CM Recto Avenue, Manila

QUIAPO
609 Sales St., Quiapo, Manila

CALOOCAN A. MABINI
102 A.Mabini St., Maypajo, Caloocan City

GRACE PARK
G/F HGL Bldg. 554 EDSA cor. Biglang-Awa St.Caloocan City

MANILA WEST AREA

ADUANA
G/F FEMII (Main) Bldg.A. Soriano St., Aduana, Intramuros Manila

ERMITA
1312 A. Mabini St., Ermita, Manila

TAFT AVE.-P. FAURA
Don Santiago Bldg., Taft Ave., Manila

PORT AREA
G/F Mary Bachrach cor. 25th & A.C. Delgado St. Port Area, Manila

STA. ANA
Pedro Gil cor. Embarcadero St., Sta. Ana, Manila

TAFT AVENUE
G/F Endriga Bldg. 2270 Taft Avenue, Malate

UNITED NATIONS
429 Victoria Bldg., United Nations Avenue, Ermita, Manila

ROXAS BLVD.
Kanlaon Towers, Roxas Blvd., Pasay City

QUEZON CITY CENTRAL AREA

DILIMAN
Commonwealth Ave., cor. Masaya St., Diliman, Quezon City

DEL MONTE
Bank of Commerce Bldg., Del Monte Ave., cor. D. Tuazon St. Quezon City

VISAYAS AVE.
43 Visayas Ave. Brgy., Vasra Project 6, Quezon City

WEST AVENUE
11 West Avenue cor.Zamboanga St. Quezon City

WEST TRIANGLE
1451 Quezon Avenue cor. Examiner St., Quezon City

BROADCAST CITY
Broadcast City Compound, Capitol Hills Diliman, Quezon City

COMMONWEALTH
Holy Spirit Drive, Don Antonio Subd. Brgy. Holy Spirit, Commonwealth Avenue, Quezon City

CUBAO-RUSTANS
Superstore Bldg.Gen. Romulo St., Araneta Centre, Cubao, Quezon City

METRO MANILA NORTH AREA

E. RODRIGUEZ
990-A E. Rodriguez Sr. Ave. Brgy. Mariana, Quezon City

BANAWE
128-B. WAS Bldg., Banawe St., Quezon City

KAMUNING
Tomas Morato Ave., cor. Dr. Lascano St. Kamuning, Quezon City

MALABON
29 Gov. Pascual Acacia Ave. Malabon City, Metro Manila

MALABON-GEN. LUNA
45 Gen. Luna St., San Agustin, Malabon City

ROOSEVELT
311 Roosevelt Ave. near M.H. del Pilar St. San Francisco del Monte, Quezon City

VALENZUELA
Unit 12 & 13 PureGold Price Club, Brgy. Dalandanan, McArthur Highway, Valenzuela City

QUEZON AVE.
Sto. Domingo Church Compound # 8 Biak na Bato St. cor. Quezon Avenue, Quezon City

METRO MANILA EAST AREA

EASTWOOD PETRON
188 E. Rodriguez Jr. Ave. (C-5) Bagumbayan, Quezon City

GREENHILLS
Eisenhower Tower, No. 7 Eisenhower St. Greenhills, San Juan, Metro Manila

MANDALUYONG-SHAW
Shaw Boulevard cor. Ideal St., Brgy. Pleasant Hills, Mandaluyong City

PASIG
Renaissance 2000 Tower Meralco Ave., Pasig City

MAIN OFFICE-SAN MIGUEL
Unit A G/F, San Miguel Properties Center No.7 Saint Francis St., Mandaluyong City

CAINTA
40 Felix Ave., San Isidro, Cainta, Rizal

CONCEPCION
PACLEB Bldg. Bayan-Bayanan Ave. Concepcion, Markina City

MARIKINA
J.P. Rizal St., Sta. Elena, Marikina City

MARCOS HI-WAY
Unit 10, Thaddeus Arcade, Pitpitan cor. Gil Fernando Ave. San Roque, Marikina City

SOUTH LUZON AREA

BATANGAS-CAEDO
Calicanto, Batangas City

BATANGAS-P. Burgos
No. 27 P. Burgos St., Batangas City

CALAMBA
Ragasa Complex, National Road, Parian, Calamba City, Laguna

CALAPAN
Leona Yap Ong Bldg., J.P. Rizal St., Calapan City, Oriental Mindoro

LEGAZPI CITY
G/F Diabetes One-Stop Center LANDCO Business Park, Legazpi City

LIPA
#7 Bank of Commerce Bldg. C.M. Recto Avenue, Brgy. 9, Lipa City

NAGA CITY
Romar-I Bldg., Elias Angeles St., Naga City

STA. ROSA
Shop I-A G/F Paseo 3, Paseo de Sta. Rosa, Sta. Rosa City, Laguna

LUCENA
Quezon Avenue cor. Lakandula Street, Brgy. IX, Lucena City

TANAUAN
Corachea Bldg. J.P. Laurel Highway cor. Molave St., Tanauan City, Batangas

PUERTO PRINCESA
J.P. Brgy. Manggahan Puerto Princesa City, Palawan

CENTRAL LUZON AREA

ANGELES
McArthur Highway cor. B. Aquino St. Lourdes Sur East, Angeles City

BALIBAGO
Mc Arthur Highway, cor. Victor St. Balibago, Angeles City

BALIUAG
Victoria Bldg. Poblacion, Baliuag, Bulacan

IBA, ZAMBALES
TRB Bldg., Ramon Magsaysay Ave., Iba, Zambales

MALOLOS
Paseo del Congreso, Malolos, Bulacan

SAN FERNANDO
Insular Life Bldg., Mc Arthur Highway, San Fernando, Pampanga

STA. CRUZ, ZAMBALES
National Road cor. Misola St.Poblacion South, Sta.Cruz, Zambales

SUBIC FREEPORT
Bay Promenade Bldg., Sampson St. cor, Schley Road, Subic Freeport Zone

TARLAC
G/F LP Bldg., F. Tanedo St. San Nicolas, Tarlac City

BALANGA
Paterno St. Poblacion Balanga City, Bataan

NORTH LUZON AREA

BAGUIO
G/F, YMCA Baguio Bldg, Post Office Loop (Upper Session Road) , Baguio City

BATAC
C.F. Daguio Bldg., Washington St., Brgy. 2 Ablan, Batac City, Ilocos Norte

CABANATUAN
V. P Bldg maharlika Highway Brgy. H. Concepcion, Cabanatuan City, Nueva Ecija

CANDON
National Highway, cor. Abaya St. Candon City, Ilocos Sur

CARMEN
Mc Arthur Highway, Carmen Rosales, Pangasinan

DAGUPAN
A.B.Fernandez Ave.cor.Nable St., Dagupan City, Pangasinan

SAN FERNANDO-LA UNION
CAP Annex Bldg., Quezon Ave. cor Gov. Luna St., San Fernando, La Union

TUGUEGARAO
Bonifacio cor. Washington Sts., Tuguegarao City Cagayan

URDANETA
No.7 Alexander St.,Urdaneta City, Pangasinan

VIGAN
Plaza Maestro Commercial Complex Jacinto cor. Florentino Sts. Vigan City, Ilocos Sur

EASTERN VISAYAS AREA

CEBU- MAIN
B.Rodriguez cor. Osmeña Blvd., Cebu City

CEBU-AYALA
8990 Negros St., Cebu Business Park, Cebu City

CEBU- BANILAD
G/F University of Cebu Bldg.,Gov. Cuenco Ave.(Banilad Rd.) 6000 Cebu City

CEBU- JUAN LUNA
Cor Juan Luna Blvd. & Plaridel St., Cebu City

CEBU- PASIL
Tupas St., Pasil, Cebu City

LAPU LAPU
Unit 3-5 AJS Bldg., Pusok, Lapu-Lapu City

MANDAUE
Entienza Bldg., National Highway, Mandaue City, Cebu

ORMOC
Real St., Ormoc City

TAGBILARAN
G/F CAP Bldg., CPG North Avenue, Tagbilaran city

WESTERN VISAYAS AREA

BACOLOD-ARANETA
Yusay Arcade Araneta St., Bacolod City

BACOLOD-LACSON
Cor. 12th St. & Lacson Sts., Bacolod City

DUMAGUETE
CAP Bldg., Rizal Ave., Poblacion, Dumaguete City

ESTANCIA
Clement St., Estancia, Iloilo

ILOILO-IZNART
TCT Bldg., Iznart St., Iloilo City

ILOILO-J.M. BASA
BOC Bldg. J.M. Basa & Mapa Sts., Iloilo City

KABANKALAN
Guanzon St., Kabankalan City, Negros Occidental

KALIBO
1280 Garcia Bldg. C. Laserna St., Kalibo, Aklan

ROXAS CITY
Gaisano Arcade, Arnaldo Blvd. Roxas City, Capiz

MINDANAO AREA

BUTUAN
G/F, Cesia Bldg. Montilla Blvd. Butuan City, Agusan del Norte

CAGAYAN DE ORO-LAPASAN
Suites 6 & 7, Gateway Tower 1 Limketkai Center, Cagayan de Oro City

CAGAYAN DE ORO-VELEZ
Don A. Velez-Akut Sts., Cagayan de Oro City

DAVAO- CITY HALL
Valgoson's Realty Bldg., City Hall Drive, Davao City

DAVAO-RIZAL
CAP Dev. Center Bldg., Rizal St., Davao City

DAVAO-STA. ANA
Maxima Siasu Bldg., R. Magsaysay Avenue cor.Lizada St., Davao City

GENERAL SANTOS
G/F, Sunshine Hardware Bldg., Santiago Blvd., General Santos City

MARAMAG
TRB Bldg., Sayre Highway, Poblacion Maramag, Bukidnon

ZAMBOANGA-M.JALDON
Grand Astoria Hotel Bldg. Mayor Jaldon St., Zamboanga City

ZAMBOANGA-VETERANS
Veterans-Avenue cor.Camanchile St. Zamboanga City