2012
ANNUAL REPORT

MOVING FORWARD

MISSION

Our business is professional banking.
We commit to serve our clients with the highest standards of integrity and quality.
We strongly believe in our human resources and dedicate ourselves to their continuous development.
We will create value for our stakeholders by being among the top banks in the industry.
In so doing we contribute to nation building.
We are Bank of Commerce.

VISION

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

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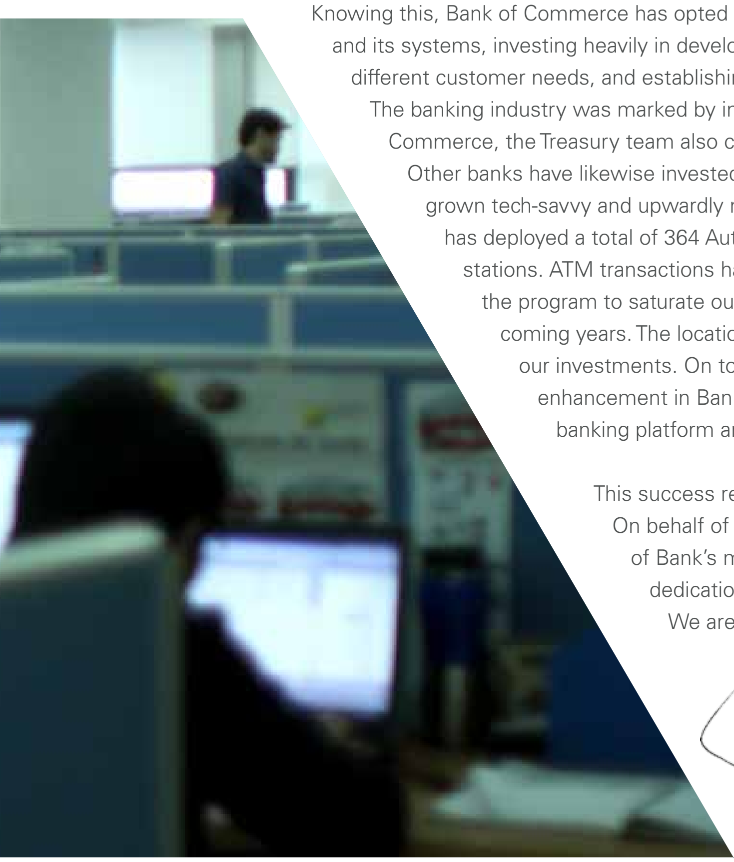
Chairman's Report

Banks have a unique and privileged role to play in the community. On one hand, we provide the means by which the society achieves economic affluence. We support businesses as they attract investors, create new jobs and seek new markets abroad. We help our customers purchase homes, save for their children's education and secure their family's financial future.



Knowing this, Bank of Commerce has opted to embrace fully this interlinked responsibility by strengthening its infrastructure and its systems, investing heavily in developing its employees, diversifying its products in the anticipation of new and different customer needs, and establishing branches and networks where there were none previously. The banking industry was marked by increased activity in securities and foreign exchange trading. At Bank of Commerce, the Treasury team also contributed significantly to profitability. Other banks have likewise invested heavily in technology and communications to reach the market that has grown tech-savvy and upwardly mobile. To make our services more convenient to the banking public, the Bank has deployed a total of 364 Automated Teller Machines, 95 of which are strategically placed in key Petron stations. ATM transactions have grown significantly, and with fee income attached to acquiring transactions, the program to saturate our market with ATM machines will create a steady stream of revenues in the coming years. The locations will continue to be evaluated on profitability, to get the best returns on our investments. On top of this, management is committed to prioritizing automation and systems enhancement in Bank of Commerce. Foremost on the Bank strategy for 2013 is to launch the internet banking platform and the OFW remittance business operations.

This success rests on the implementation of these initiatives and the dedication of employees. On behalf of the Board and shareholders, I would like to extend our appreciation for the efforts of Bank's management and nearly 1,800 employees. I would also like to acknowledge the dedication of my fellow directors in providing full support and guidance to management. We are stronger, better, and more prepared than we have ever been as we enter 2013.

Jose T. Pardo

"We are stronger, better, and more prepared than we have ever been"

2012 was a year of triumphs for the Bank of Commerce. We were richly challenged throughout the year, but were able to forge ahead despite of them. Through the collective effort of everyone in the company, these challenges became a means of finding ways to strengthen procedures and improve product lines.

2012 saw the Bank of Commerce experiencing impressive trading gains and trust contributions. It was also the year that the bank strengthened its service distribution systems, installing a total of 364 Automated Teller Machines (ATMs) in strategic locations nationwide. There has also been a marked decrease in the amount of Non-Performing Loans (NPLs) and Non-Performing Assets (NPA s), a development that helped reduce the drag on earnings.

Among the hindrances that the bank had to overcome were the saturated consumer market, the diversion of funds from the savings and loan market, and the slow pick up of loans from domestic corporations.

We were able to meet these challenges head-on, converting them into opportunities for ourselves and our stock holders. To create movement in a saturated market, we made ourselves visible in areas previously untapped by other banks, taking advantage of our partnership with the fuel giant Petron. We also concentrated on a segment of the market that was receiving little attention – the suppliers and dealers of one of the largest food companies in the Philippines, the San Miguel Corporation.

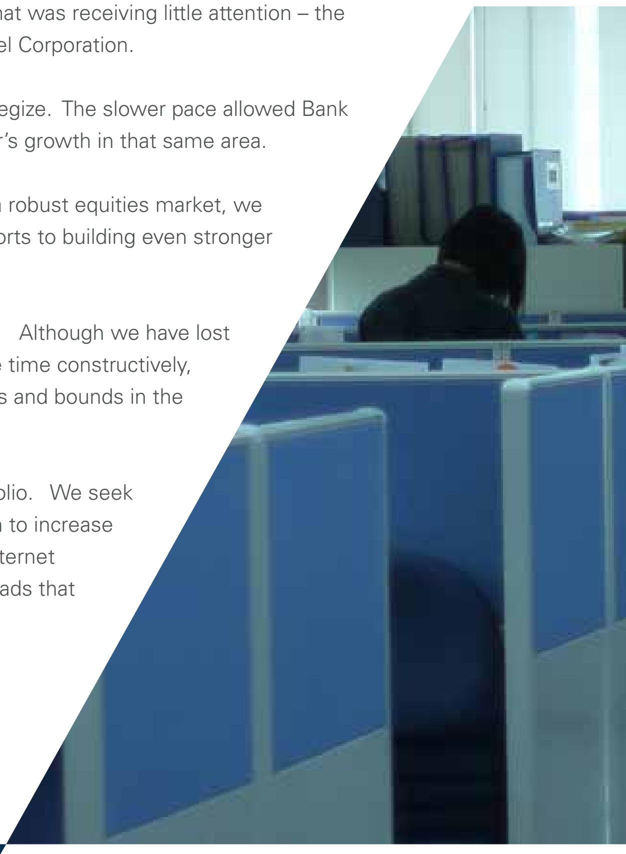
The sluggish domestic loan scene turned into a valuable resource - time to recoup and strategize. The slower pace allowed Bank of Commerce to focus on building the infrastructure necessary to be able to propel this year's growth in that same area.

Aware that most of our target segments' disposable income was being channelled to feed a robust equities market, we pushed to offer even more value to attract depositors. Bank of Commerce dedicated its efforts to building even stronger relationships with depositors and potential clients.

This year, we shall make use of the building blocks that the previous year has gifted us with. Although we have lost some time and missed a few opportunities in the past year, we are certain that we used the time constructively, investing in underlying infrastructure that will enable the bank and its assets to grow in leaps and bounds in the coming months.

Our target is to achieve a 30% increase in total deposits and to all but double the loan portfolio. We seek to increase the earning assets to ensure sustainability of the bank's profit streams. We plan to increase Bank of Commerce's capacity to generate a fee income from various enhanced products: internet banking, mobile banking, and increased ATM capabilities. We also plan to strongly pursue leads that we have developed in consumer banking.

Sergio D. Edeza



"investing in underlying infrastructure that will enable the bank and its assets to grow in leaps and bounds"

President's Report

Moving Forward

2012 was a landmark year for the Bank of Commerce. Through our commitment to growth and development, we have unleashed a previously untapped resource of endless possibilities. Through our unwavering passion to serve and enrich people's lives, we have embraced the opportunity to dream big and take bold action.

Already, 364 ATMs, strategically-located nationwide, uphold our promise to provide convenience and unwavering service to our clients. We have revamped our product offerings, creating innovative financial products and services that fuel the momentum which we continue to build upon. Our personnel have been continuously training and upgrading their skills, eager to help each and every client reach their financial goals and aspirations.

However, as we move towards the future, we are mindful of the past. We cherish the ties that have forged with clients, business partners, and stakeholders, all of whom have been no small part in our success. As we march forward, we shall continue to work with these people and share our achievements with them.

This is the year we embarked on a journey, one that has been buoyed by the optimism of our clients, employees, and shareholders.

2012 will forever be remembered as the year the Bank of Commerce went all out to move forward.

Corporate Governance

Adoption of Manual on Corporate Governance

Pursuant to Securities and Exchange Commission Memorandum Circular No. 6 Series of 2009 issued on 22 June 2009 and Bangko Sentral ng Pilipinas Circular Nos. 749 and 757 issued on 27 February 2012 and 8 May 2012, respectively, Bank of Commerce adopted a Manual on Corporate Governance in March 2010. Said Manual is being updated every year or more often when there are significant changes in laws and regulations. The Manual also incorporates the applicable provisions of the General Banking Act of 2000.

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

Board Governance

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

Board of Directors

Bank of Commerce has fifteen (15) Directors, four (4) of whom are independent directors. The Board of Directors is composed of individuals with diverse experiences, backgrounds and perspectives. The membership of the Board is a combination of executive and non-executive directors, and no director or small group of directors dominates the decision-making process. The directors possess such qualifications and stature that enable each of them to effectively participate in the deliberations of the Board.

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

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

Board Committees

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

The Corporate Secretary

The Corporate Secretary is responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as 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 should have the skills and expertise to provide appropriate guidance and direction to the Bank on the development, implementation and maintenance of the Compliance Program. He is responsible for coordinating, monitoring and facilitating compliance with existing laws, rules and regulations. If any violation is found, the matter is reported to the appropriate level of management or to the Board together with appropriate recommendations to prevent recurrence and the necessity for imposing disciplinary action, when called for.

Board Performance and Evaluation

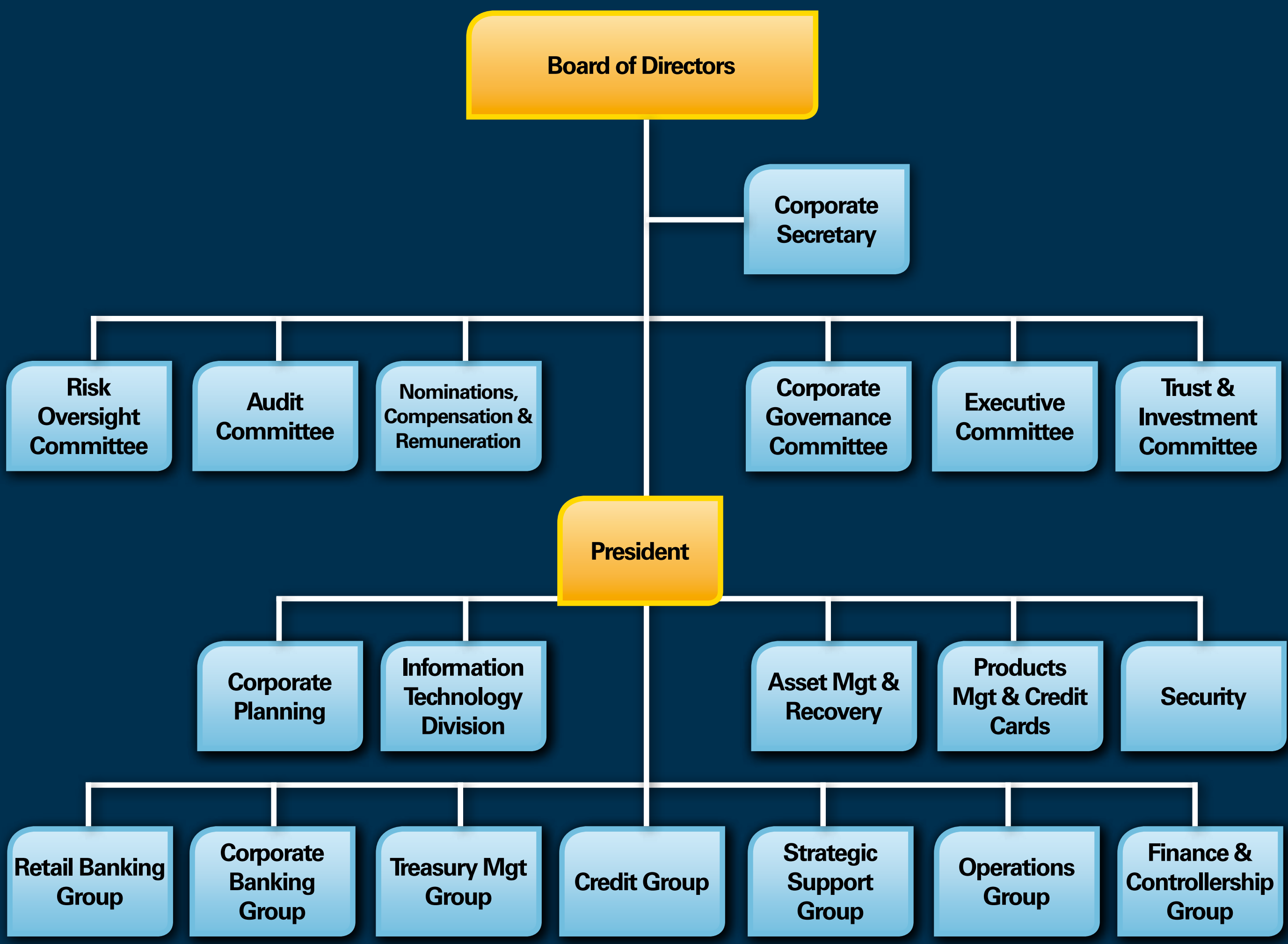
The Board holds regular monthly meetings to enable directors to discharge their mandated duties and responsibilities. Special meetings are also held from time to time as the need arises. In addition to the Board meetings, the directors attend the meetings of their respective Board Committees which they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

The Board has instituted and adopted an internal rating system consisting of self-rating and peer rating of individual members as well as rating the performance of the Board as a whole. The performance of the different Board committees is rated by the Corporate Governance Committee. The rating process is done annually and seeks to measure the performance of the Board of Directors and the Committees against set targets and other criteria as defined by the Board.

Organizational Structure

It is the vision of Bank of Commerce to be distinctly known to its customers, employees and other stakeholders as a Bank totally committed to providing excellent service. "Service is our business" will drive the Bank's culture and existence. The Bank is led by Board Directors who have impressive credentials and has gained relevant experiences from various government and private financial institutions. The Board of Directors provide active oversight over Bank operations through their membership in various board and management committees. The Board ensures that the Bank is operating consistent with its strategic objectives.

Moreover, the Bank has a Senior Management team who are highly competent and experienced in managing and operating the Bank with efficency and dedication. Both the Board and Management continuously promote and strengthen good governance in the organization.



Board of Directors
Corporate Secretary
Risk Oversight Committee
Audit Committee
Nominations, Compensation & Remuneration
Corporate Governance Committee
Executive Committee
Trust & Investment Committee
President
Corporate Planning
Information Technology Division
Asset Mgt & Recovery
Products Mgt & Credit Cards
Security
Retail Banking Group
Corporate Banking Group
Treasury Mgt Group
Credit Group
Strategic Support Group
Operations Group
Finance & Controllership Group

As the Bank refines its definition of service, it recognizes that the necessary experience and expertise have to be developed among its employees. Competent employees with the right set of values and attitudes will satisfy and bring a delightful experience to our customers. We continuously strive to create a work environment that is conducive to attracting and retaining personnel with superior skills and talent.

In order to start building the kind of organization we want, the Human Resource Management and Development Division (HRMDD) introduced the Management Training Program (MTP). In 2012 we saw the first batch of 14 Management Trainees graduate and move into the main Banking units such as Corporate Banking, Treasury and Branch Banking among others. The Bank envisions this program as an advocacy for tapping dynamic and high potential individuals.

We collaborate with the top colleges and universities through campus recruitment activities and job fairs. In 2012, the Bank's employee referral program, "Share the Passion", was launched, Through these sources, we were able to hire 316 capable employees for various positions. The Bank also offered various career advancement opportunities within the organization, thus increasing employee engagement level.

The Bank engages in market studies and research on employee benefits & remuneration to ensure that our employees are compensated at par with industry standards. In partnership with our Information Technology Services Division, HR has completed the implementation of an Oracle Employee Self-service module within the e-biz suite of applications.

Also, we regularly partner with the San Miguel Corporate HR Team in wellness, employee relations and Corporate Social Responsibility programs.

Adequate and Timely Information

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

Financial Reporting, Controls & Audit

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

Stockholders' Rights & Protection of Minority Stockholders' Interests

The Board respects the rights of the stockholders as provided for in the Corporation Code and ensures that they can freely vote on all matters that require their consent or approval, exercise their 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 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.

Related Person Transaction Policy

The Bank ensures that the transactions with related parties and interests are done in an arms length basis and kept within the limits set by regulatory bodies.

Risk Management

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 with inputs 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.

Risk Management Division

Bank of Commerce considers the understanding and the management of risk as a key part of its business strategy. In 2012, the Risk Management Division (RSK) continued its mandate to strengthen the Bank's risk management infrastructure to meet the requirements of its business by formally creating the Information Technology Risk Management Department and designating a full time risk manager for the Trust business.

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

- Formulating and recommending policies to manage market, asset liability, credit, operational, information technology and trust risks arising from the business of the Bank;
- Setting up the risk management framework approved by the Board of Directors;
- Actively promoting a culture of risk awareness and risk management and;
- Coordinating with capital management department on the adequacy of the Bank's capital in absorbing the risks present in the Bank's business.

RSK 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 the limits to the BROC. It also subjects portfolio credit exposures to stress scenarios and reports the results 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. It supplements the Value at Risk methodology with sensitivity and duration measures as well as subjects Treasury positions to stress scenarios to provide a more forward view of risk. Based on these measures, MRM analyses exception 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 system risks management process of the organization.

Information Technology Risk Management

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

Trust Risk Management

The Trust Risk Management (TRM) ensures the management of risk in the daily operations of Trust Services Division and reports to the BROC on a quarterly basis. TRM develops and enhances the policies and procedures in operational, credit and market risks in accordance with the risk management framework of the Bank. It is responsible for implementing approved strategies in a way that will limit fiduciary risks and reinforce compliance with laws and regulations.

Risk Measurement and Reporting Systems

The Bank's capital adequacy is determined by measuring credit, market and operational risk exposures using standardized or basic approaches as 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 RMD.

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 classifications of borrowing accounts. Senior management evaluates the required provisions for loan losses based on these data on a monthly basis. All risk information are processed, analyzed and consolidated for proper reporting to the BOD through BROC, Auditcom as well as the Senior Executive Team of the Bank.

Actual and estimated risk exposure/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 ATMs.

Risk Exposures and Assessments

Risk Weighted Assets

Bank of Commerce risk weighted assets at the end of 2012 totaled PHP70.27BB.

RISK WEIGHTED ASSETS	2011	2012
Credit Risk	55,480.028	57,705.036
On-Balance Sheet	54,801.860	57,106.158
Commitments	241.838	218.289
Contingencies	436.331	380.590
Market Risk	4,558.100	5,202.476
Interest Rate Risk	4,152.179	4,753.603
Foreign Exchange Risk	405.921	448.873
Operational Risk	7,644.904	7,364.796
TOTAL RISK WEIGHTED ASSETS	**67,683.031**	**70,272.309**

In PHP MM

Credit Risk

The bank measures its exposure to credit risk using the standardized approach under Philippine Banking Regulation.

Under this approach, the bank multiplies its period-end credit risk exposures by a specified risk weight between zero and one hundred fifty percent. The applicable weight depends on the rating provided by an External Credit Assessment Institution, the person or entity ultimately liable for payment of the cash flows due on the asset.

Credit risk exposures at the end of 2012 include all items on the balance sheet totaling PHP89.31BB in balance sheet exposures, PHP1.93BB in commitments to lend and PHP0.41BB in contingencies arising from settlement receivables.

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

ON-BALANCE SHEET ITEMS ASSESSED WEIGHT FOR CREDIT RISK	2011	2012
Cash & Other Cash Items	**951.924**	**1,332.510**
Due From Banks	**26,856.134**	**20,129.790**
Securities	**22,977.062**	**18,574.974**
Sovereign	17,599.849	12,729.953
Bank	9,525.180	562.254
Corporate	4,551.210	5,282.767
Loan Portfolio	30,820.365	36,959.798
Loans to Corporates	26,524.078	33,411.196
Loans to Individuals - Qualified Residential REM	447.863	849.984
Loans to Individuals - Other Loans	725.657	1,476.690
Defaulted Exposures - Qualified Residential REM	191.209	166.663
Defaulted Exposures - Other Loans	2,931.558	1,055.265
Sales Contracts Receivable	**1,757.482**	**1,458.109**
Real & Other Properties Acquired	**2,195.469**	**2,269.951**
Other Assets	**8,931.177**	**8,588.416**
TOTAL ON-BALANCE SHEET ITEMS WEIGHTED FOR CREDIT RISK	**94,489.613**	**89,313.547**

In PHP MM

Certain exposures totaling PHP3.38BB treated as deductions by the capital adequacy assessment exercise did not attract a risk weight.

ON-BALANCE SHEET ITEMS WEIGHTED NOT ASSESSED WEIGHT FOR CREDIT RISK	2011	2012
General Loan Loss Provision	**-280.000**	**-359.000**
Financial Assets Held for Trading	**576.251**	**1,136.509**
Total Securitization Tranches Rated Below Investment Grade Deducted From Capital	**581.742**	**470.408**
Deferred Income Tax Assets	**477.378**	**477.378**
Investments in equity of unconsolidated subsidiary securities dealers/brokers, insurance companies, and non-financial allied undertakings, after deducting related goodwill	**27.372**	**27.372**
Reciprocal investments in equity of other banks/enterprises	**25.572**	**23.595**
Accumulated market gains/(losses) on available for sale debt securities	**133.981**	**1,612.622**
TOTAL ON-BALANCE SHEET ITEMS WEIGHTED NOT WEIGHTED FOR CREDIT RISK	**1,542.297**	**3,388.885**

In PHP MM

The bank considers credit risk mitigation as lowering its exposure to credit risk. At the end of 2012, PHP1.93BB in credit risk exposures to corporate borrowers carried mitigation in the form of qualified guarantees from third parties.

ON-BALANCE SHEET CREDIT RISK WEIGHTED ASSETS COVERED BY CREDIT RISK MITIGATION	2011	2012
Exposures covered by Credit Risk Mitigation	2,155.183	1,935.647
Items Covered by Guarantee (Before Risk Weighting)	2,155.183	1,935.647
Items Covered by Collateral (Before Risk Weighting)	0.000	0.000

In PHP MM

The bank acknowledges the potential credit exposure arising from having committed to expend credit to a customer. It uses a credit conversion factor prescribed by banking regulations (between twenty and one hundred percent) to arrive at a loan equivalent exposure. The total loan equivalent exposure of the bank to such commitments at the end of 2012 was PHP218MM.

COMMITMENTS TO LEND (LOAN EQUIVALENT EXPOSURE)	2011	2012
Direct credit substitutes	202.006	209.189
Transaction-related contingencies	11.856	2.663
Trade-related contingencies	27.976	6.436
Other commitments	0.000	0.000
TOTAL COMMITMENTS TO LEND (LOAN EQUIVALENT EXPOSURE)	241.838	218.289

In PHP MM

The bank acknowledges the potential credit exposure arising from unsettled contracts. It uses a credit conversion factor prescribed by banking regulations (between one and ten percent) to arrive at a loan equivalent exposure. The bank also considers added exposure from any outstanding contract that carries at a positive fair value as such reflects a receivable of the bank from the counterparty. Total loan equivalent exposure of the bank to such commitments at the end of 2012 was PHP420MM.

CONTINGENCIES (LOAN EQUIVALENT EXPOSURE)	2011	2012
Counterparty Risk on Freestanding Derivatives	4.967	0.000
Counterparty Risk on Derivatives Embedded into Structured Notes	477.424	419.998
TOTAL COMMITMENTS TO LEND (LOAN EQUIVALENT EXPOSURE)	482.390	419.998

In PHP MM

Total credit risk weighted exposures at the end of 2012 totaled PHP57.70BB. PHP57.10BB proceeded from on-balance sheet items. PHP218MM proceeded from commitments to lend while PHP380MM arose from contingent settlement receivables.

Total credit risk weighted exposures at the end of 2012 totaled PHP57.70BB. PHP57.10BB proceeded from on-balance sheet constituting 99%, while the remainder is in off-balance sheet risk weighted assets (PHP218.30) and counterparty risk weighted assets in the trading book (PHP380.60). Details are in tables below:

ON-BALANCE SHEET CREDIT RISK WEIGHTED ASSETS	2011	2012
Cash & Other Cash Items	**0.627**	**2.246**
Due From Banks	**1,897.321**	**1,296.269**
Securities	**12,085.459**	**9,805.453**
Sovereign	8,768.766	4,631.300
Bank	529.090	281.434
Corporate	2,787.603	4,892.719
Loan Portfolio	**29,516.199**	**35,126.792**
Loans to Corporates	23,978.065	31,475.549
Loans to Individuals - Qualified Residential REM	223.932	424.992
Loans to Individuals - Other Loans	725.657	1,476.690
Defaulted Exposures - Qualified Residential REM	191.209	166.663
Defaulted Exposures - Other Loans	4,397.337	1,582.898
Sales Contracts Receivable	**2,029.596**	**1,677.723**
Real & Other Properties Acquired	**3,293.203**	**3,404.927**
Other Assets	**5,976.089**	**5,792.499**
TOTAL CREDIT RISK WEIGHTED ASSETS	54,798.494	57,105.908

In PHP MM

ON-BALANCE SHEET CREDIT RISK WEIGHTED ASSETS COVERED BY CREDIT RISK MITIGATION	2011	2012
Exposures covered by Credit Risk Mitigation	**2,155.183**	**1,935.647**
Items Covered by Guarantee (After Risk Weighting)	**3.366**	**0.249**
Items Covered by Collateral (After Risk Weighting)	**0.000**	**0.000**

In PHP MM

COMMITMENTS TO LEND (RISK WEIGHTED)	2011	2012
Direct credit substitutes	**202.006**	**209.189**
Transaction-related contingencies	**11.856**	**2.663**
Trade-related contingencies	**27.976**	**6.436**
Other commitments	**0.000**	**0.000**
TOTAL COMMITMENTS TO LEND (RISK WEIGHTED)	241.838	218.289

In PHP MM

CONTINGENCIES (RISK WEIGHTED)	2011	2012
Counterparty Risk on Freestanding Derivatives	**0.993**	**0.000**
Counterparty Risk on Derivatives Embedded into Structured Notes	**435.337**	**380.590**
TOTAL COMMITMENTS TO LEND (RISK WEIGHTED)	436.331	380.590

In PHP MM

Market Risk

The bank measures its exposure to market risk using the standardized approach under Philippine Banking Regulation. Under this approach, the bank applied risk weights defined by regulation to outstanding exposures to interest rates and to foreign exchange rates. Total market risk weighted assets at the end of 2012 were PHP5.20BB

MARKET RISK WEIGHTED ASSETS	2011	2012
Interest Rate Risk Specific to the Issuer of Debt Instruments	3,723.207	3,849.244
Interest Rate Risk Attributable to Market Conditions	428.971	904.360
Foreign Exchange Risk	405.921	448.873
TOTAL MARKET RISK WEIGHTED ASSETS	**4,558.100**	**5,202.476**

In PHP MM

Operational Risk

The bank measures its exposure to operational risk using the basic indicator approach under Philippine Banking Regulation. The approach uses by using the historical total annual gross income as the measure of risk exposure.Total operational risk weighted assets at the end of 2012 were PHP7.36BB

OPERATIONAL RISK WEIGHTED ASSETS	2011	2012
Average income of the Previous Three Years	4,077.282	3,927.891
Capital Charge (15 pct of Average Income)	611.592	589.184
Calibration (Capital Charge times 1.25)	764.490	736.480
TOTAL OPERATIONAL RISK WEIGHTED ASSETS (Calibrated Capital Charge times 10)	**7,644.904**	**7,364.796**

In PHP MM

Structured Products

The bank at the end of 2012 carried investments in structured products totaling PHP4.61BB. PHP3.62BB of these were in the form of Republic of the Philippines reference credit linked notes carried as investments available-for-sale. The bank remained consistent with financial reporting standards by separating the credit default swap embedded into the notes from their host instruments and carried the derivatives at their fair values with any change to the carrying value reflected as profit or loss. The host instrument carried on the bank's balance sheet at their fair values with any change to the carrying value reflected in equity as other comprehensive income.

The bank also carried investments valued at PHP0.46BB in subordinate tranches of collateralized debt obligations and carries them as unquoted debt securities classified as loans. The bank carried these investments at their amortized cost and provided for these investments to the extent assessment has proved the asset uncollectible.

Remaining structures totaling PHP0.52BB in assets that provide interest rate support for other structured notes not carried by the bank. Those carried as investments available for sale appeared on the bank's balance sheet at their fair values with any change to the carrying value reflected in equity as other comprehensive income. Those carried as unquoted debt securities classified as loans appeared on the bank's balance sheet at their amortized cost. The bank provided for these investments to the extent assessment has proved the asset uncollectible.

INVESTMENTS IN STRUCTURED PRODUCTS IN 2012	Carrying Value of Host Instrument	Carrying Value of Embedded Derivatives	Gross Exposure	Provisions for Loss	Total Carrying Value of Exposure
Credit-Linked Notes (ROP Reference)	3,619.729	0.951	3,620.680	0.000	3,620.680
Collateralized Debt Obligations	759.106	0.000	759.106	-295.262	463.844
Other Structures	1,039.508	0.000	1,039.508	-513.691	525.817
TOTAL	5,418.343	0.951	5,419.295	-808.953	4,610.341

In PHP MM

INVESTMENTS IN STRUCTURED PRODUCTS IN 2011	Carrying Value of Host Instrument	Carrying Value of Embedded Derivatives	Gross Exposure	Provisions for Loss	Total Carrying Value of Exposure
Credit-Linked Notes(ROP Reference)	3,344.63	-2.65	3,341.98	0.00	3,341.98
Collateralized Debt Obligations	743.89	0.00	743.89	-295.26	448.63
Other Structures	1,125.77	0.00	1,125.77	-513.69	612.08
TOTAL	5,214.29	-2.65	5,211.64	-808.95	4,402.69

In PHP MM

Other Risk Disclosures

Compliance Risk

Compliance risk is one that the bank will address, not by setting up capital against possible events but through the strengthening of its compliance infrastructure. This infrastructure will require that all persons within the organization should be required to know the laws, rules, and regulations attendant to their functions. In addition, the units in charge of compliance (legal, regulatory, tax) should regularly disseminate any new issuances for the understanding of concerned units.

For this purpose, Compliance Coordinators are appointed within each of the operating and business units, following a compliance program that is anchored on self-testing.

Reputational Risk

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

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

Legal Risk

Legal risk arises from the risk of loss due to failure in the legal processes. This is normally a result of imperfect documentation or insufficient collateral agreements. The Bank's Legal Services Division has the primary function of reviewing all documents for completeness and enforceability under their respective legal jurisdiction.

Pension Risk

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

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

The annual third party actuarial evaluation of the condition of the retirement plan considers the relevance of the assumption used in valuation and recommends the necessary adjustments to properly reflect the value of plan assets and liabilities. The valuation assumptions last underwent review and adjustment during the actuarial report of 2012.

Capital Management

Objectives

Bank of Commerce aims to manage its capital base so as to maintain a level of capital that is both adequate in sustaining strategic growth and profit targets and sufficient to protect the interests of depositors, creditors and shareholders. The bank monitors the composition and levels of its capital base to meet the following objectives:

- Comply with the requirements under Philippine banking regulations for the levels of qualified capital to be no less than ten (10) percent of risk weighted assets;
- Carry levels of qualified capital of a volume and quality that aligns with the risks attendant to the strategic growth and profit objectives of the bank and;
- Maintain a constant balance between maximizing the returns on equity with the prudence required to sustain business stability.

The bank has consistently maintained qualified capital in excess of the minimum required by the BSP. The bank also conducts an Internal Capital Adequacy Assessment Process (ICAAP) in which the bank sets medium-term growth and return targets, identifies the businesses it will pursue and determine the levels of capital required to sustain the bank through the period in which it will pursue the strategy. The process involves articulating strategic initiatives the bank will undertake to achieve the desired outcome; identifying key performance indicators that would affect the bank's performance; and determining the potential coverage the bank will need to operate through adverse changes in the identified indicators. The ICAAP therefore allows the bank to:

- Determine the amount of capital the bank will need to pursue its strategic plans;
- Dimension the prudent levels of growth and return the bank can sustain given its expected levels of capital;
- Observe stress test results to identify specific vulnerabilities to which the bank has greatest exposure and to determine if these are consistent with the desired strategic direction;
- Identify developing solvency events given the changes in economic environment and;
- Appropriately adjust strategic plans and exposures as necessary.

Capital Adequacy

Philippine banking regulations require banks to maintain qualified capital resources in an amount that is no less than ten percent of their risk-weighted assets.

The bank computes for and reports its compliance with the minimum capital requirements to the BSP using the standards and principles provided for by applicable regulation[1]

At the end of 2012, the bank reported a Capital Adequacy Ratio of 22.321 percent. This ratio was significantly above the minimum requirement of ten (10) percent. The ratio of high quality capital (Tier One Capital) to risk weighted assets on the same date was 22.143 percent.

Adequacy Ratios

	2011	2012
Tier One Ratio (Adjusted Tier One Capital/Total Risk Weighted Assets)	23.115%	22.143%
Capital Adequacy Ratio (Adjusted Capital Resources/ Total Risk Weighted Assets)	23.115%	22.321%

Philippine Banking Regulations divides qualified capital into Tier One and Tier Two Capital. Tier One capital is that of the highest quality and is composed of shareholders equity less valuation increment reserves and unrealized gains or losses on available for sale debt securities. Items adjusted directly to tier one capital include: deferred income taxes and unbooked valuation gains. Tier Two Capital includes items that augment the ability of the bank to absorb shocks to its operations. These include valuation increment reserves and the general loan loss provision.

Regulation requires the bank to deduct from capital items that are deemed incapable of absorbing shocks to performance. These include equity in affiliates and holdings of sub-investment grade tranches of securitizations. Regulation requires banks to take deductions fifty percent off Tier One Capital and fifty percent off Tier Two Capital.

Capital Structure

The bank reported PHP15.69BB of its capital resources at the end of 2012 would qualify to cover its capital adequacy requirements. PHP15.56BB of these resources were of quality as Tier One Capital while the balance of PHP 0.13BB would qualify as Tier Two Capital.

CAPITAL RESOURCES	2011	2012
Tier One		
Qualified Items		
Shareholder's Equity (Paid-in)	19,972.617	19,972.641
Retained Earnings	-1,708.824	-3,661.869
Cumulative Foreign Exchange Translation Gains (Losses)	11.084	-12.340
Total	**18,274.877**	**16,298.432**
Disqualified Items		
Unbooked valuation reserves and other capital adjustments based on the latest ROE as approved by the Monetary Board	-1,824.668	0.000
Deferred Income Taxes	-477.378	-477.378
Total	**-2,302.046**	**-477.378**
TOTAL UNADJUSTED TIER ONE CAPITAL		**15,821.054**
Tier Two Capital		
Qualified Items		
Valuation Increment Reserves	27.016	27.016
General Loan Loss Provision	280.000	359.000
TOTAL UNADJUSTED TIER TWO CAPITAL	**307.016**	**386.016**
Capital Adjustments (50 pct from Tier One & 50 pct from Tier Two)		
Total Deductions	**634.687**	**521.375**
Total Capital Resources		
Adjusted Tier One	15,645.159	15,560.366
Adjusted Tier Two	0.000	125.328
Total	**15,645.159**	**15,685.694**

In PHP MM

Capital Requirements

The exposures of the bank when weighted for risk at the end of 2012 reflected assets totaling PHP7.03BB. Of these, PHP5.77BB were attributable to exposures of the bank in faith on the credit of its borrowing customers and counterparties. PHP5.20BB were attributable to the sensitivities of the bank to the financial markets. The balance of PHP7.36BB was attributable to the risks proceeding from the bank's operations. The required capital to cover these risks totals PHP7.03BB. Credit risk requires PHP5.77BB. Market Risk requires PHP0.52BB and Operational Risk requires PHP0.74BB

CAPITAL REQUIREMENTS	2011	2012
Credit Risk		
On Balance Sheet	5,480.186	5,710.616
Off-Balance Sheet	24.184	21.829
Counterparty Settlement Risk	43.633	38.059
Total	**5,548.003**	**5,770.504**
Market Risk		
Interest Rate Risk - Specific Risk	372.321	384.924
Interest Rate Risk - General Market Risk	42.897	90.436
Foreign Exchange Risk	40.592	44.887
Total	**455.810**	**520.248**
Operational Risk		
Total	**764.490**	**736.480**
Total Risk Weighted Assets	6,768.303	7,027.231

In PHP MM

Changes in the Regulatory Environment

The Bangko Sentral ng Pilipinas issued on 14 December 2012, a circular revising the capital adequacy standards for Philippine banks to those conforming to those of the Basel III capital accord. The circular is expected to take effect in January 2014.

The new standards apply more stringent rules as to what qualifies as capital and requires the bank to maintain capital of quality that ensures Core Equity, the portion of Tier One capital comprised of qualified common shareholder's equity, is no less than six percent of risk weighted assets. The regulation also required banks to maintain a Capital Conservation Buffer equivalent to two and a half percent of risk-weighted assets.

The Bangko Sentral ng Pilipinas has yet to finalize its compliance standards for Basel III. Bank of Commerce expects itself reasonably prepared to meet the changes in capital standards.

Financial Highlights

FINANCIAL POSITION	2012 (in billions)
Reserves	21.4
Securities (Net)	21.3
Loans and Receivables (Net)	40.3
Other Assets	10.1
TOTAL	93.1

ASSETS / LIABILITIES AND EQUITY	
Depositis	65.9
Other Liabilities	9.2
Equity	18.0
TOTAL	93.1

	2012
Return of Average Equity	1.5%

STATEMENT OF INCOME	2012 (in billions)
Net Interest Margins	2.6
Non-Financing Revenues	2.0
OPEX	3.7
Provisions for Loss	0.7
Benefit from Income Tax	0.1
Net Income	0.3

CAPITAL ADEQUACY	
Total Qualifying Capital	15.7
Risk Weighted Assets	70.3
CAR	22.3%

Corporate Social Responsibility

Corporate Social Responsibility is vital to every organization. Not only does it increase a corporation's value to the community in which it does business, but it also supports the quality of service that the company is committed to provide. The passion to help our community in any way that we can goes hand in hand with the Bank's commitment to service.

Bank of Commerce supports different organizations through its CSR activities, many of which are undertaken with San Miguel Foundation, Inc. (SMFI), whose core values align with ours when it comes to making an effort to create a positive impact in the lives of others.

BayaniJuan Feeding Program

Bank of Commerce once again supported SMFI's Happy Tummies, Year Two. Because of the Bank's sponsorship, fifty undernourished children of Bayan ni Juan from four to twelve years old were provided one whole nutritious meal per day for two months. BayaniJuan sa Calauan is home to the 6,000 families from different squatter colonies of Metro Manila that were greatly affected by the Typhoon Ondoy in 2009. The program was organized by the Salesians of Don Bosco stationed in Calauan, and they have succeeded to improve the children's health and weight because of the feeding program.

Aside from Bank of Commerce's donation for the feeding of the children, officers and employees took it a notch deeper by visiting the relocation site, BayaniJuan on December 2012. A talk on "family & morality" and engaging games & activities were organized, giving the banker-volunteers a chance to mingle with the children. On top of this, the employees brought gifts of slippers, toys, books & candies – all to make the Christmas spirit of giving be more evident in the community. The day was concluded with a salo-salo with all the families in the site, organized together with SMFI, Ginebra San Miguel, SMITS and the San Miguel Chapel community.

Tribute to the Defenders of Bataan and Corregidor

Bank of Commerce joined several other organizations in recognizing the efforts of the Filipino World War II Veterans by being one of the major sponsors in their night of tribute. Proceeds of the gala night were awarded to the living veterans and the families of the deceased soldiers of Bataan War. The ceremony aspired to express gratitude for the heroes of Bataan and Corregidor who fought and gave up their lives for the honor of our country.

Rehabilitation of schools of the Typhoon Victims

In cooperation with the SMFI, Bank of Commerce helped the rehabilitation of several schools in the province of Iligan. The beneficiaries were Carmen National High School, Iponan National High School of CDO and Digkilaan High School, Northeast II-B Central School of Iligan - all of which were devastated by typhoon Sendong. The donations were given to rebuild their facilities and buy new school supplies so that they could re-open the following school year. In June 2012, their computer laboratories and libraries were re-established.

Operational Highlights

In pushing for better services that benefit our customers, the Bank has streamlined its processes and enhanced existing controls that allow every branch to meet a client's needs in a timely manner. There has also been increased emphasis on training, retooling officers and staff to develop stronger client relationships, and strengthening our foothold in the market.

We have embarked on a strategy to improve our market share this year by improving our focus, becoming more proactive, and increasing our visibility. Part of the latter has involved installing ATM's in Petron stations and malls where foot traffic was established to be high.

Retail Banking Group

For the Retail Banking Group, 2012 was a year of bringing Bank of Commerce closer to its customers through innovation in its products and services, enhancements in its branch network and distribution channels, and an overall thrust of increasing value for the communities in which it serves.

Products and Services

In 2012, Bank of Commerce ventured into a new market segment by launching the OFW Sikap Pinoy Account. This product allowed the Bank to make inroads into the OFW market and offer a compelling value proposition that addresses the needs of the country's overseas workers.

For Consumer Loans, the Bank also re-launched its Personal Loan product backed by best-in-market interest rates. Leveraging on the synergies with San Miguel Corporation and its subsidiaries, particularly Petron Corporation, the Bank also introduced the Petron e-Fuel Card Promo for Auto Loans and rewarded its borrowers with free Petron e-Fuel Cards. These initiatives enabled the Bank to gain market share and be recognized as a force to reckon with in the consumer loan space.

Branch Network and Distribution Channels

In terms of branch network, the focus for 2012 was optimizing the Bank's branch locations and making it more convenient for its clients to visit and transact with Bank of Commerce within their communities. Several branches were relocated to more high traffic and strategic locations such as South Superhighway Branch which was transferred to BF Homes and Cubao Branch moving to P. Tuazon.

Synergies with Petron Corporation were likewise enhanced with the transfer of the T. Alonzo and Mandaluyong branches to Petron Katipunan and Petron Wack-Wack, respectively. A new branch in Petron Fairview was also opened, thus strengthening the partnerships between the Bank and the country's number one fuel retailer.

The Consumer Loans business was also expanded with partnerships being established with real estate developers and auto dealerships for distribution of the Bank's Home and Auto Loan products. By the end of the year, the Consumer Lending Division had already accredited more than 40 real estate developers and partnered with more than 30 auto dealerships, leading to a significant growth in the Home Loan (41%) and Auto Loan (78%) portfolios.

Customer transactions were made even more convenient by the increase in number and scope of the Bank's ATM network. From 302 ATMs as of end-2011, the Bank expanded its ATM network by more than 20% to 364 ATMs by end-2012.

Trust

Assets Held in Trust was posted at P34.36BB in 2012 or a growth of 10% from last year's figure of P31.30BB. Investment Management Accounts (IMA) continued to generate much of the growth while volume of trust and other fiduciary accounts (TOFA) was maintained.

The BSP Special Deposit Account (BSP SDA) remained our clients' most favored and suitable investment. However, with the drop in yield of BSP SDA which fell by 100 bps in 2012, clients started asking for and are in the lookout for a wider array of investment options. As such, the Trust Services Division actively tapped the capital market for alternative debt papers and equity issues by participating in the primary issuances and secondary market offerings of various government and private corporate entities. Investments in long-term corporate bonds and equities grew by 503% to P5.94BB in 2012 from year-ago level of P0.98MM.
Towards the end of the year, we started laying the ground work for new and enhanced products that will be launched starting in 2013, which aim to make available an expanded roster of investment products and value-added services which will meet the varying and changing needs of our clients.

Treasury Management Group

With a slow global economic growth led by the US and the European region, Treasury successfully navigated its way through another interesting year for the financial markets. 2012 ended without completely resolving the sovereign debt crisis in Europe. The US economy has not shown any convincing sign of a turn-around despite the Fed's introduction of more quantitative easing measures. These negative sentiments were balanced by optimism in the local front. With an official 5% - 6% economic growth target, the high likelihood of a Philippine credit rating upgrade was slowly being priced in the market. Yield spreads between US$ denominated bonds issued by the Republic of the Philippines and its benchmark, US Treasuries, have narrowed down. Other Asian credits followed suit. The price of local currency bonds likewise trended up. The same fundamentals also drove the appreciation of the Philippine Peso against the US$.

In an environment of falling interest rates, Treasury capitalized on the opportunity to turn in decent trading gains. After beefing up its securities portfolio at the start of the year, proper timing of sales maximized returns from its security holdings. Its profitable currency trading activities likewise contributed to the robust trading income of the Bank.

Corporate Banking Group

The Corporate Banking Group (CBG) rationalized its focus with a re-organization of the group. To better focus on the specific needs of its target markets, namely the corporate, middle markets, and small and medium enterprises, the group formed lending units with more specified functions. This created the opportunity to bring new personnel into its fold, so some time was spent on finding qualified people who were then trained and integrated into the team. The renewed and strengthened team now follows new service protocols formulated to increase the rate of portfolio growth and satisfy its served markets more efficiently.
2013 is off to a promising start, and the Corporate Business Group is even more determined to reach more clients and cross sell the bank's products and services to potential markets which were previously untapped.

Presence in Communities

The Bank continued its participation in community activities and celebrations to further emphasize its full commitment to be part of and serve its communities.

The Bank took part in Chinese New Year celebrations in different areas across the country such as the annual Chinese New Year parade in Binondo, Manila. Economic briefings were likewise conducted in Binondo and Quezon City areas as part of the Bank's dedication to informing its clients of latest trends in the market and the economy.

Tha Bank's Rosario Branch also partnered with Petron Foundation and local government units in its Loans for Livelihood Project, which aims to develop tourism and manufacturing of indigenous products of Rosario, Cavite.

Board of Directors

Jose T. Pardo

- Chairman of the Board
- Chairman of the Trust and Investment Committee
- Chairman of the Corporate Governance Committee
- Chairman of the Nomination, Compensation, and Remuneration Committee

Sergio G. Edeza

- President and Chief Executive Officer
- Chairman of the Executive Committee
- Member of the Trust and Investment Committee
- Member of the Board Risk Oversight Committee

Evita C. Caballa

- Corporate Secretary and Director
- Member of the Audit Committee
- Member of the Corporate Governance Committee

Raul G. Gerodias

- Director

Amor C. Iliscupidez

- Director
- Vice Chairman of the Executive Committee
- Member of the Trust and Investment Committee
- Member of the Nomination, Compensation, and Remuneration Committee

Aurora T. Calderon

- Board Adviser
- Board Adviser of the Board Risk Oversight Committee

Francis C. Chua

- Director
- Member of the Board Risk Oversight Committee
- Member of the Corporate Governance Committee
- Member of the Nomination, Compensation, and Remuneration Committee

Geoffrey M. Martinez

- Director
- Member of the Executive Committee
- Member of the Nomination, Compensation, and Remuneration Committee

Maria Farah Z.G. Nicolas-Suchianco

- Director
- Member of the Audit Committee

Ferdinand K. Constantino

- Board Adviser
- Board Adviser of the Trust and Investment Committee
- Board Adviser of the Audit Committee
- Board Adviser of the Nomination, Compensation, and Remuneration Committee

Carolina C. Diangco

- Director
- Member of the Executive Committee

Vicente L. Panlilio

- Director
- Chairman of the Board Risk Oversight Committee
- Member of the Trust and Investment Committee

Marito L. Platon

- Director
- Member of the Audit Committee
- Member of the Corporate Governance Committee

Rafael E. Evangelista

- Director
- Member of the Corporate Governance Committee

Faustino G. Galang†

- Director
- Member of the Executive Committee
- Member of the Board Risk Oversight Committee

Raul Ch. Rabe

- Director
- Member of the Audit Committee
- Member of the Nomination, Compensation, and Remuneration Committee

Roman Felipe S. Reyes

- Director
- Chairman of the Audit Committee

Senior Executive Team

Sergio G. Edeza
President / Chief Executive Officer

Carmelita R. Araneta
EVP / Operations Group Head

Arturo E. Manuel, Jr.
EVP / Retail Banking Group Head

Angelica H. Lavares
EVP / Strategic Support Group Head

Enrique L. Gana
SVP / Corporate Banking Group Head

Felipe Martin F. Timbol
SVP / Treasury Management Group Head

Edward Dennis J. Zshornack
SVP / Chief Risk Officer
Adviser

Serafin A. Fule, Jr.
FVP / Chief Compliance Officer
Adviser

Aurora C. Manguerra
FVP / Corporate Planning/Financial Institutions Division Head
Secretariat

Freddie M. Domingo
FVP / Chief Audit Executive
Adviser

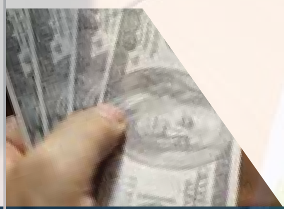
Mark S. Pantallon
OIC / Finance & Controllership Group

Products and 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
- Dollar Time Deposit
- Euro Time Deposit
- Sikap Pinoy OFW Account

Treasury Products



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

Trust Products

- Investment Management Account
- Personal Trust
- Escrow
- Retirement Fund
- Unit Investment Trust Fund
- Safekeeping
- Corporate and Institutional Trust

Consumer Loans

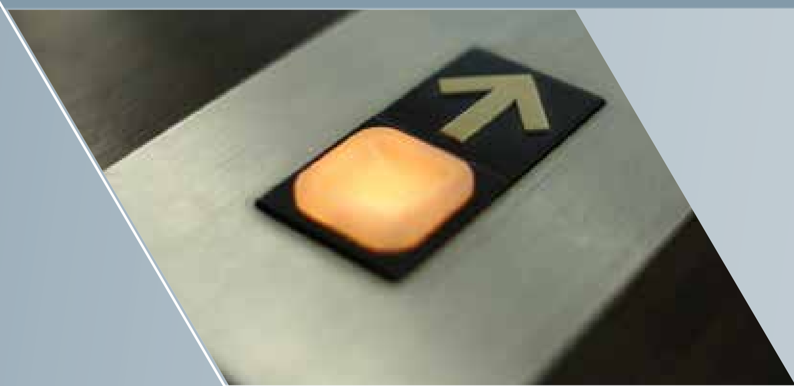
- Home Loan
- Auto Loan
- Personal Load
- Salary Loan
- Credit Cards

Corporate Loans

- Working Capital Loan
- Foreign Currency Denominated Loan
- Trade Financing
- Export Packing Credit
- Domestic Bills Purchase
- Export Bills Purchase
- Capital Expenditure Financing

Cash Management and Payment Services

- CDT Payments (via BoC PAS5 Facility)
- Payroll/Payment Crediting Service
- Value Check Service (MC Cutting Service)
- Deposit Pick-Up Service
- Bills Payment Facility
- Retail Internet Banking
- Corporate Internet Banking
- CheckWriter Plus
- Payroll Plus
- OTC Collection Service
- PDC Warehousing Facility
- BancNet BIR Electronic Filing and Payment System (BIR eFPS)
- BancNet Bills Payment
- BancNet POS
- BancNet Internet Banking (BancNet Online)
- BancNet Online Shopping



Audited Financial Statements

December 31, 2012

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, 2012 and 2011, 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 bases for our qualified audit opinion.

Bases for Qualified Opinion

As discussed in Note 15 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. 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 years when these were incurred, as required under PFRS, total assets and equity would have decreased by P0.9 billion and P1.1 billion as of December 31, 2012 and 2011, respectively.

As discussed in Note 15 to the financial statements, in 2012, the Bank changed its accounting policy on the amortization of the abovementioned deferred losses charging it directly against current operations in compliance with the Regulatory Accounting Policies (RAP) prescribed by the Bangko Sentral ng Pilipinas (BSP) for banks. Had the amortization of deferred losses been charged against beginning deficit, net income of the Bank would have increased by P224.1 million, and P185.3 million in 2012 and 2011, respectively.

As discussed in Notes 15 and 35 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 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 35 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 P1.7 billion and P1.8 billion as of December 31, 2012 and 2011, respectively, and net income would have increased by P91.5 million and P97.7 million in 2012 and 2011, respectively.

Had the matters discussed in the preceding paragraphs been accounted for by the Bank in accordance with PFRS, total assets and equity would have decreased by P2.6 billion and P2.9 billion as of December 31, 2012 and 2011, respectively, and net income would have increased by P315.6 million and P283.0 million in 2012 and 2011, respectively.

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 at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with PFRS.

Other Matters

Our opinion on the December 31, 2011 financial statements dated March 27, 2012 was qualified because the Bank's allowance for impairment and credit losses for financial assets were based on BSP provisioning rules and regulations which differ under PFRS in certain respects. As discussed in Note 38 to the financial statements, the Bank restated its 2011 financial statements to recognize the additional impairment losses as required under PFRS. Further, as discussed in Note 15 to the financial statements, in 2012, the Bank changed its accounting policy on the amortization of deferred losses and restated its 2011 financial statements to reflect the amortization in the 2011 statement of income. Accordingly, the bases for qualified opinion on the December 31, 2011 financial statements, as presented herein are different from our previous report.

Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010 and RR No. 19-2011 of the Bureau of Internal Revenue

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 40 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 audits of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Manabat Sanagustin & Co., CPAs

March 22, 2013
Makati City, Metro Manila

Statements of Financial Position

	Note	December 31 2012	December 31 2011 (As Restated - see Note 38)	January 1 2011 (As Restated - see Note 38)
ASSETS				
Cash and Other Cash Items	*17*	**P1,329,640,922**	P1,073,094,356	P959,133,794
Due from Bangko Sentral ng Pilipinas	*17*	**16,604,392,945**	9,425,249,720	8,721,630,799
Due from Other Banks		**2,788,805,569**	3,208,540,979	8,473,876,023
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	*7*	**737,114,265**	14,032,443,705	15,396,006,720
Financial Assets at Fair Value through Profit or Loss	*8, 37*	**1,103,767,403**	571,838,844	287,875,167
Available-for-Sale Securities - net	*9, 16, 37*	**20,168,689,979**	22,822,853,731	14,881,524,682
Held-to-Maturity Investments	*9, 37*	**-**	-	10,144,625,377
Loans and Receivables - net	*10, 16, 34, 37*	**40,318,978,872**	32,920,193,252	35,800,818,772
Investment in an Associate	*11,16*	**57,299,913**	50,067,058	63,533,736
Property and Equipment - net	*12, 16, 34*			
At cost		**727,919,804**	712,347,376	628,455,239
At appraised values		**1,107,274,549**	1,161,707,464	1,235,046,799
Investment Properties - net	*13, 16*	**2,677,905,303**	3,301,448,151	3,609,832,843
Non-current Assets Held for Sale	*14*	**325,830,137**	468,762,195	545,806,659
Deferred Tax Assets - net	*31*	**-**	-	42,946,415
Other Assets - net	*15, 16*	**5,153,516,589**	5,545,227,508	4,676,911,499
		P93,101,136,250	P95,293,774,339	P105,468,024,524
LIABILITIES AND EQUITY				
Deposit Liabilities	*17, 34*			
Demand		**P15,390,172,573**	P15,270,465,185	P13,776,291,298
Savings		**31,232,894,601**	33,035,654,060	37,549,963,027
Time		**19,269,617,763**	23,501,915,893	35,862,044,496
		65,892,684,937	71,808,035,138	87,188,298,821
Financial Liabilities at Fair Value through Profit or Loss	*8*	**47,534,504**	224,351,551	414,299,603
Bills Payable	*18*	**1,433,558,217**	2,312,082,307	2,491,000,467
Manager's Checks and Acceptances Payable		**371,965,948**	353,906,067	254,938,504
Accrued Interest, Taxes and Other Expenses	*19*	**758,665,728**	471,015,775	670,363,546
Subordinated Debts	*20*	**-**	-	299,059,132
Deferred Tax Liabilities - net	*31*	**-**	393,954,852	-
Other Liabilities	*21*	**6,570,519,111**	2,251,381,100	2,513,608,416
Total Liabilities		**75,074,928,445**	77,814,726,790	93,831,568,489

Forward

	Note	**December 31 2012**	December 31 2011 (As Restated - see Note 38)	January 1 2011 (As Restated - see Note 38)
Equity				
Capital stock	*23*	**P11,224,111,200**	P11,224,097,475	P8,620,462,350
Paid-in surplus	*23*	**8,748,529,687**	8,748,519,520	6,833,806,556
Surplus reserves	*24*	**131,741,182**	128,310,356	125,680,876
Deficit	*9, 10*	**(3,384,640,664)**	(3,702,687,933)	(3,936,086,171)
Net unrealized gains (losses) on available-for-sale securities	*9, 38*	**1,254,127,131**	965,664,153	(159,139,309)
Revaluation increment on property	*12*	**38,709,472**	104,059,953	140,652,636
Cumulative translation adjustment		**12,996,623**	11,084,025	11,079,097
Share in other comprehensive income of an associate	*11*	**633,174**	-	-
Total Equity		**18,026,207,805**	17,479,047,549	11,636,456,035
		P93,101,136,250	P95,293,774,339	P105,468,024,524

See Notes to the Financial Statements.

Statements of Income

		Years Ended December 31	
	Note	2012	2011 (As Restated - see Notes 15 and 38)
INTEREST INCOME			
Loans and receivables	*10, 34, 37*	**P2,249,509,734**	P2,634,680,582
Trading and investment securities	*25, 37*	**1,158,703,907**	1,435,320,917
Due from Bangko Sentral ng Pilipinas and other banks	*7*	**115,058,794**	380,834,042
Interbank loans receivable and securities purchased under resale agreements	*7*	**188,387,905**	181,270,645
		3,711,660,340	4,632,106,186
INTEREST EXPENSE			
Deposit liabilities	*17, 34*	**1,025,916,584**	1,211,676,610
Bills payable and other borrowings	*18, 20*	**99,117,762**	122,233,395
		1,125,034,346	1,333,910,005
NET INTEREST INCOME		**2,586,625,994**	3,298,196,181
OTHER INCOME			
Trading and investment securities gains - net	*27*	**1,324,317,265**	1,007,179,352
Service charges, fees and commissions	*26*	**311,782,729**	243,192,821
Gains on foreclosure, and sale of property and equipment and repossessed assets - net	*13, 14*	**126,868,424**	162,790,102
Foreign exchange gains - net		**62,062,765**	95,163,209
Miscellaneous	*9, 13, 29*	**199,667,482**	139,906,204
		2,024,698,665	1,648,231,688
OTHER EXPENSES			
Compensation and fringe benefits	*28, 34*	**1,218,777,035**	1,113,948,089
Impairment losses	*9, 10, 15, 16, 35*	**736,481,262**	1,531,159,009
Rent and utilities	*29*	**627,324,940**	518,732,660
Taxes and licenses	*31*	**337,930,500**	345,241,414
Depreciation and amortization	*12, 13*	**329,348,932**	257,509,468
Insurance		**147,968,467**	144,500,000
Management and professional fees		**70,052,341**	36,966,650
Amortization of software costs	*15*	**43,351,706**	57,917,320
Miscellaneous	*30*	**942,545,867**	534,474,875
		4,453,781,050	4,540,449,485
INCOME BEFORE SHARE IN NET LOSS OF AN ASSOCIATE AND INCOME TAX		**157,543,609**	405,978,384
SHARE IN NET LOSS OF AN ASSOCIATE	*11*	**(1,174,721)**	(2,360,915)
INCOME BEFORE INCOME TAX		**156,368,888**	403,617,469
INCOME TAX (BENEFIT) EXPENSE	*31*	**(101,893,443)**	249,631,672
NET INCOME		**P258,262,331**	P153,985,797

See Notes to the Financial Statements.

Statements of Comprehensive Income

		Years Ended December 31	
	Note	**2012**	2011 (As Restated - see Notes 15 and 38)
NET INCOME		**P258,262,331**	P153,985,797
OTHER COMPREHENSIVE INCOME			
Net change in fair value of available-for-sale securities	*9*	**288,462,978**	1,124,803,462
Net change in revaluation increment on property		**(2,134,717)**	45,449,238
Cumulative translation adjustments		**1,912,598**	4,928
Share in other comprehensive income of an associate	*11*	**633,174**	-
		288,874,033	1,170,257,628
TOTAL COMPREHENSIVE INCOME		**P547,136,364**	P1,324,243,425

See Notes to the Financial Statements.

Statements of Changes in Equity

	Note	Capital Stock (Note 23)	Paid-in Surplus (Note 23)	Surplus Reserves (Note 24)	Deficit (As Restated - see Notes 9, 10, 15, 16 and 38)	Revaluation Increment on Property	Cumulative Translation Adjustment	Net Unrealized Gain (Loss) on Available-for-Sale Securities (As Restated - see Notes 9 and 38)	Share in Other Comprehensive Income of an Associate (Note 11)	Total Equity
Balance as of December 31, 2011, as previously reported		P11,224,097,475	P8,748,519,520	P128,310,356	(P3,146,872,405)	P104,059,953	P11,084,025	P718,848,625	P -	P17,788,047,549
Prior period adjustments	38	-	-	-	(555,815,528)	-	-	246,815,528	-	(309,000,000)
Balance as of December 31, 2011, as restated		11,224,097,475	8,748,519,520	128,310,356	(3,702,687,933)	104,059,953	11,084,025	965,664,153	-	17,479,047,549
Changes in fair value of available-for-sale (AFS) securities		-	-	-	-	–	-	1,534,969,163	-	1,534,969,163
Changes in fair value of AFS investments taken to profit or loss		-	-	-	-	-	-	(1,246,506,185)	-	(1,246,506,185)
Net movement in cumulative translation adjustment		-	-	-	-	-	1,912,598	-	-	1,912,598
Transfer of revaluation increment realized through depreciation		-	-	-	63,215,764	(63,215,764)	-	-	-	-
Decrease in value of land and building net of deferred tax liability		-	-	-	-	(2,134,717)	-	-	-	(2,134,717)
Share in other comprehensive income of an associate		-	-	-	-	-	-	-	633,174	633,174
Net income for the year		-	-	-	258,262,331	-	-	-	-	258,262,331
Total comprehensive income for the year		-	-	-	321,478,095	(65,350,481)	1,912,598	288,462,978	633,174	547,136,364
Payment of subscription on capital stock		13,725	10,167	-	-	-	-	-	-	23,892
Appropriation of surplus		-	-	3,430,826	(3,430,826)	-	-	-	-	-
		13,725	10,167	3,430,826	(3,430,826)	-	-	-	-	23,892
Balance as of December 31, 2012		P11,224,111,200	P8,748,529,687	P131,741,182	(P3,384,640,664)	P38,709,472	P12,996,623	P1,254,127,131	P633,174	P18,026,207,805

Forward

	Note	Capital Stock (Note 23)	Paid-in Surplus (Note 23)	Surplus Reserves (Note 24)	Deficit (As Restated - see Notes 15 and 38)	Revaluation Increment on Property	Cumulative Translation Adjustment	Net Unrealized Gain (Loss) on Available-for-Sale Securities (As Restated - see Notes 9 and 38)	Total Equity
Balance as of December 31, 2010, as previously reported		P8,620,462,350	P6,833,806,556	P125,680,876	(P3,620,929,490)	P140,652,636	P11,079,097	(P474,295,990)	P11,636,456,035
Prior period adjustments	*38*	-	-	-	(315,156,681)	-	-	315,156,681	-
Balance as of December 31, 2010, as restated		8,620,462,350	6,833,806,556	125,680,876	(3,936,086,171)	140,652,636	11,079,097	(159,139,309)	11,636,456,035
Changes in fair value of available-for-sale (AFS) securities		-	-	-	-	-	-	2,253,332,114	2,253,332,114
Changes in fair value of AFS investments taken to profit/loss		-	-	-	-	-	-	(1,128,528,652)	(1,128,528,652)
Net movement in cumulative translation adjustment		-	-	-	-	-	4,928	-	4,928
Transfer of revaluation increment realized through depreciation		-	-	-	82,041,921	(82,041,921)	-	-	-
Decrease in value of land and building net of deferred tax liability		-	-	-	-	45,449,238	-	-	45,449,238
Net income for the year		-	-	-	153,985,797	-	-	-	153,985,797
Total comprehensive income for the year		-	-	-	236,027,718	(36,592,683)	4,928	1,124,803,462	1,324,243,425
Issuance of new shares		2,603,635,125	1,914,712,964	-	-	-	-	-	4,518,348,089
Appropriation of surplus		-	-	2,629,480	(2,629,480)	-	-	-	-
		2,603,635,125	1,914,712,964	2,629,480	(2,629,480)	-	-	-	4,518,348,089
Balance as of December 31, 2011		P11,224,097,475	P8,748,519,520	P128,310,356	(P3,702,687,933)	P104,059,953	P11,084,025	P965,664,153	P17,479,047,549

See Notes to the Financial Statements.

Statements of Cash Flows

	Note	2012	2011 (As Restated - see Notes 38)
		Years Ended December 31	
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P156,368,888**	P403,617,469
Adjustments for:			
Gain on sale of AFS securities	*27*	**(1,246,506,185)**	(1,128,528,652)
Impairment losses	*16*	**736,481,262**	1,531,159,009
Depreciation and amortization	*12, 13*	**329,348,932**	257,509,468
Gain on foreclosure and sale of foreclosed assets	*13*	**(106,486,639)**	(143,776,533)
Unrealized (gain) loss on financial assets and liabilities at fair value through profit or loss	*27*	**(81,199,060)**	233,199,634
Amortization of software costs	*15*	**43,351,706**	57,917,320
Share in net loss (income) of an associate	*11*	**(4,477,567)**	8,466,678
Gain on sale of HTM investments		**-**	(83,872,098)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Interbank loans receivable and securities purchased under resale agreements		**11,700,000,000**	3,300,000,000
Financial assets at fair value through profit or loss		**(627,546,546)**	(517,163,311)
Loans and receivables		**(7,363,682,006)**	1,649,973,251
Other assets		**30,530,659**	(1,042,329,463)
Increase (decrease) in:			
Deposit liabilities		**(5,915,350,201)**	(15,380,263,683)
Financial liabilities at fair value through profit or loss		**-**	(189,948,052)
Manager's checks and acceptances payable		**18,059,881**	98,967,563
Accrued interest, taxes and other expenses		**306,754,553**	(219,414,259)
Other liabilities		**4,319,138,012**	(379,620,156)
Net cash generated from (used in) operations		**2,294,785,689**	(11,544,105,815)
Income taxes paid		**(298,898,659)**	(229,565,184)
Net cash provided by (used in) operating activities		**1,995,887,030**	(11,773,670,999)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale or redemption of:			
Available-for-sale securities		**74,998,854,826**	51,945,731,980
Investment properties		**874,368,215**	592,622,726
Property and equipment		**103,591,327**	231,925,687
Deferred software cost		**47,956,076**	141,979,009
Noncurrent assets held-for-sale		**44,244,923**	139,891,796
Held-to-maturity investments		**-**	4,406,533,797
Additions to:			
Available-for-sale securities		**(70,896,486,679)**	(51,256,307,982)
Property and equipment		**(347,985,698)**	(431,211,480)
Investment properties		**(306,554,440)**	(163,788,740)
Deferred software costs		**(216,663,039)**	(385,400,100)
Net cash provided by investing activities		**4,301,325,511**	5,221,976,693

Forward

	Note	2012	2011 (As Restated - see Notes 38)
		Years Ended December 31	
CASH FLOWS FROM FINANCING ACTIVITIES			
Bills payable and securities		**(P878,524,090)**	(P178,918,160)
Payment of subscription on capital stock	*23*	**23,892**	4,518,348,089
Payment of unsecured subordinated debt		**-**	(299,059,132)
Net cash provided by (used in) financing activities		**(878,500,198)**	4,040,370,797
Effect of exchange rate differences		**1,912,598**	4,933
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**5,420,624,941**	(2,511,318,576)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**1,073,094,356**	959,133,794
Due from Bangko Sentral ng Pilipinas		**9,425,249,720**	8,721,630,799
Due from other banks		**3,208,540,979**	8,473,876,023
Interbank loans receivable and securities		**2,332,443,705**	396,006,720
		16,039,328,760	18,550,647,336
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items		**1,329,640,922**	1,073,094,356
Due from Bangko Sentral ng Pilipinas		**16,604,392,945**	9,425,249,720
Due from other banks		**2,788,805,569**	3,208,540,979
Interbank loans receivable and securities		**737,114,265**	2,332,443,705
		P21,459,953,701	P16,039,328,760
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received		**P3,731,157,383**	P4,770,262,591
Interest paid		**1,117,396,636**	1,378,575,775

See Notes to the Financial Statements.

1. Reporting Entity

Bank of Commerce (the “Bank”) is a domestic corporation registered with the Philippine Securities and Exchange Commission (SEC) on 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 FCDU license on March 10, 2010. The Bank was renamed Commercial Bank of Manila on January 8, 1981, further renamed Boston Bank of the Philippines on July 27, 1988, and finally, Bank of Commerce on November 9, 1991.

On July 13, 2010, the Bangko Sentral ng Pilipinas (BSP) approved the Bank’s proposed change of location of its head office and the conversion of its former main office branch as Ayala Avenue Branch and San Miguel Properties Centre (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 122 branches nationwide as of December 31, 2012 and 2011.

The Bank’s financial statements as of and for the year ended December 31, 2012 were approved and authorized for issue by the Board of Directors (BOD) on March 22, 2013.

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 and charging of the amortization of deferred charges to operations (This is allowed by BSP under the provisions of Republic Act (RA) No. 9182, *The Special Purpose Vehicle Act of 2002.*) (see Note 15); and

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 15 and 35).

Basis of Measurement

The financial statements of the Bank have been prepared on a historical cost basis, except for financial assets and financial liabilities at fair value through profit or loss (FVPL), available-for-sale (AFS) securities, land and buildings and net plan assets, which are carried at fair value.

Functional and Presentation Currency

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

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

Presentation of Financial Statements

The Bank presents its statements of financial position broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months after the reporting date (current) and more than 12 months after the reporting date (non current) is presented in Note 22.

3. Summary of Accounting Policies

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

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The 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 PFRS.

The adoption of the new revised standards or interpretations did not have any significant impact on the financial statements of the Bank.

Adopted Effective 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.

Foreign Currency Transactions

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

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

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

Exchange differences arising from translation of FCDU accounts to PHP are taken directly to other comprehensive income (OCI) under "Cumulative translation adjustment" in the statements of comprehensive income. Exchange differences arising from restatements of foreign currency-denominated assets and liabilities of the RBU are credited to or charged against operations in the year in which the rates change.

Financial Instruments

Date of Recognition

Regular way purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Settlement date accounting refers to: (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Bank. Any change in fair value of financial asset is recognized in the statements of income for financial assets at FVPL and in OCI for assets classified as AFS securities. Deposits, amounts due to banks and customers and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

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

Initial Recognition of Financial Instruments

All financial instruments, whether financial assets or financial liabilities, are initially measured at fair value. Except for financial assets and financial liabilities valued at FVPL, initial measurement includes transaction costs. The Bank classifies its financial assets into financial assets at FVPL, AFS securities, held-to-maturity (HTM) investments and loans and receivables, while financial liabilities are classified as financial liabilities at FVPL and other financial liabilities. The category depends on the purpose for which the 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.

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

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

For hedge accounting purposes, hedges are classified primarily as either: a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge). In 2012 and 2011, 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, or a basket of reference entities) 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 initially recorded in the statements of financial position at fair value. Changes in fair value are recognized in profit or loss as part of "Trading and investment securities gains - net" account in the statements of income. Interest earned or incurred is recorded as interest income or interest expense, respectively, while dividend income is recorded under "Miscellaneous income" account in the statements of income when the right to receive payment has been established.

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. The Bank would then be unable to categorize financial instruments as HTM investments for the next two years. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the investment's effective interest rate (EIR). The amortization is included under "Interest income on trading and investment securities" account in the statements 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 under "Impairment losses" account in the statements of income. The effects of revaluing foreign currency-denominated HTM investments are recognized in the statements of income.

As of January 1, 2011, the carrying value and market value of the Bank's HTM investments amounted to P10.1 billion and P12.0 billion, respectively.

On July 13, 2011, the Bank sold a portion of its HTM investments amounting to P430.5 million. The sale of these investments resulted to the reclassification of the remaining unsold securities from HTM to AFS investments. The carrying value and fair value of these investments at the date of reclassification amounted P9.3 billion and P11.6 billion, respectively.

Loans and Receivable
Loans and receivables include cash and other cash items, due from BSP and other banks, and interbank loans receivable and securities purchased under resale agreements (SPURA). These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified under any other financial asset category.

After initial measurement, loans are subsequently measured at amortized cost using the effective interest method, less any allowance for 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.

When the estimated cash flows from the financial assets are revised, the carrying amount of the financial asset shall be adjusted to reflect the actual and revised estimated cash flows. The carrying amount shall be computed as the present value of estimated future cash flows at the financial instrument's original EIR, or, when applicable, the revised EIR. Any difference shall be recognized as impairment loss in statements 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 revaluation on foreign currency-denominated AFS debt 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 (losses) on AFS securities" account in the equity section of the statements of financial position.

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

Other Financial Liabilities

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

After initial measurement, borrowed funds and similar financial liabilities not qualified as and not designated as FVPL, are subsequently measured at cost or amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. This accounting policy relates to all liabilities in the statements of financial position, except for nonfinancial liabilities included under "Accrued interest, taxes and other expenses" and "Other liabilities" accounts which are due and expected to be paid within 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 18 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 repurchase agreements (SSURA) at a specified future date ('repos') are not derecognized from the statements of financial position. The corresponding cash received, including accrued interest, is recognized in the statements of financial position as liability of the Bank, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ("reverse repos") are not recognized in the statements of financial position. The corresponding cash paid, including accrued interest, is recognized in the statements of financial position as 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 statements of income and is amortized over the life of the agreement using the effective interest method.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another financial liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in 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 againt 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 against operations are credited to "Recovery on charged-off asset" included under "Miscellaneous income" account in the statements of income.

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

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

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

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

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

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

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and other cash items 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.

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

Financial Guarantees

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

Debt Issue Costs

Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments 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 statements of financial position.

Investment in an Associate

An associate is an entity over which the Bank has significant influence but not control. This is the rebuttable presumption in case the equity interest of the Bank in an entity is between 20% and 50%. The Bank's equity investment in BIC Investment and Capital Corp. (formerly Bancommerce Investment Corporation) (BIC) represents 24.25% of BIC's capital stock. Accordingly, the Bank's equity investment in BIC is treated as an investment in an associate accounted for under the equity method of accounting.

Under the equity method, an investment in an associate is carried in the statements of financial position at cost plus post-acquisition changes in the Bank's share in the net assets of the associate. Goodwill relating to an associate is included in the carrying value of the investment and is not amortized. The Bank's share in an associate's post-acquisition profits or losses is recognized in 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. Revaluations are made with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The fair value of the revalued asset is usually determined every three or five years.

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 statements 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 statements 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 "Deficit" account in the statements of financial position.

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

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

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

Estimated useful lives of property and equipment are as follows:

	Years
Buildings	50
Furniture, fixtures and equipment	3 - 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 are composed of assets 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 statements of financial position, are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets are not capitalized but recognized in 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 statements of financial position) include costs incurred relative to the purchase 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.

Non-current Assets Held for Sale
Non-current assets held for sale include assets with no improvements that are highly probable to be sold within one year and are included in the sales auction program for the year. Assets held for sale are stated at the lower of its carrying amount and fair value less cost to sell.

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

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

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

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

Impairment of Nonfinancial Assets
Property and Equipment, Investment Properties, Non-current Assets Held for Sale 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 cost to sell is the amount obtainable

from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable and willing parties less 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 a 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.

<u>Income Recognition</u>
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 Commissions
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.

Cost and Expense Recognition
Cost and expenses are recognized in profit or loss upon utilization of the service or at the date these are incurred. Interest expense is recognized in profit or loss in the period these are incurred.

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

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 statements of financial position in respect of the defined benefits retirement plan (see Note 28) 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 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 statements of income on a straight-line basis over the lease term.

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

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

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

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

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

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

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

Provisions

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

Contingent Assets and Contingent Liabilities

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

Related Parties

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

Events After the Reporting Date

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

Fiduciary Activities

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

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, 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 2015 financial statements and could change the classification and measurement of financial assets, and PAS 19, Employee Benefits (amended 2011), which the Bank is currently assessing the impact on its financial statements.

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, 2013

- *Presentation of Items of Other Comprehensive Income (Amendments to PAS 1).* The amendments:

  - require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss;
  - do not change the existing option to present profit or loss and other comprehensive income in two statements; and
  - change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles.

  The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRSs continue to apply in this regard.

- *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7). These amendments include minimum disclosure requirements related to financial ass*ets and financial liabilities that are:

  - offset in the statement of financial position; or
  - subject to enforceable master netting arrangements or similar agreements.

  They include a tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the statement of financial position.

- PFRS 13*, Fair Value Measurement*

  PFRS 13 replaces the fair value measurement guidance contained in individual PFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

- PAS 19, *Employee Benefits* (Amended 2011)

  The amended PAS 19 includes the following requirements:

  - actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and
  - expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

- PAS 28, *Investments in Associates and Joint Ventures (2011)*

  PAS 28 (2011) supersedes PAS 28 (2008) Investments in Associates. PAS 28 (2011) makes the following amendments:

  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and
  - on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not remeasure the retained interest.

- *Annual Improvements to PFRSs 2009 - 2011 Cycle* - various standards contain amendments to five standards with consequential amendments to other standards and interpretations. The amendments are effective for annual periods beginning on or after January 1, 2013. The following are the said improvements or amendments to PFRSs, which are relevant but has no significant effect on the financial statements of the Bank:

  - PAS 1 - *Presentation of the Opening Statement of Financial Position and Related Notes*. This is amended to clarify that:

    - the opening statement of financial position is required only if:
      - a change in accounting policy;
      - a retrospective restatement; or
      - a reclassification

      has a material effect upon the information in that statement of financial position;
    - except for the disclosures required under PAS 8, notes related to the opening statement of financial position are no longer required; and
    - the appropriate date for the opening statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented. This is regardless of whether an entity provides additional comparative information beyond the minimum comparative information requirements.

    The amendment explains that the requirements for the presentation of notes related to additional comparative information and those related to the opening statement of financial statements are different, because the underlying objectives are different. Consequential amendments have been made to PFRS 1 and PAS 34, *Interim Financial Reporting.*

- PAS 32, *Financial Instruments Presentation* - Income Tax Consequences of Distributions. This is amended to clarify that PAS 12, *Income Taxes* applies to the accounting for income taxes relating to:

  - distributions to holders of an equity instrument; and
  - transaction costs of an equity transaction.

  This amendment removes a perceived inconsistency between PAS 32 and PAS 12. Before the amendment, PAS 32 indicated that distributions to holders of an equity instrument are recognized directly in equity, net of any related income tax. However, PAS 12 generally requires the tax consequences of dividends to be recognized in profit or loss.

  A similar consequential amendment has also been made to Philippine Interpretation IFRIC 2, *Members' Share in Co-operative Entities and Similar Instruments.*

To be Adopted on January 1, 2014

- *Offsetting Financial Assets and Financial Liabilities (Amendments to PAS 32).* These amendments clarify that:

  - An entity currently has a legally enforceable right to set-off if that right is:
    - not contingent on a future event; and
    - enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

  - Gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that:
    - eliminate or result in insignificant credit and liquidity risk; and
    - process receivables and payables in a single settlement process or cycle.

To be Adopted on January 1, 2015

- PFRS 9*, Financial Instruments (2010),* PFRS 9*, Financial Instruments (2009)*

  PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of PFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

4. Critical Judgments and Estimates

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.

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 statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These estimates may include consideration of liquidity, volatility and correlation. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

(b) Financial Assets not Quoted in an Active Market

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

(c) Embedded Derivatives

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

(d) HTM Investments

The Bank classifies quoted non-derivative financial assets with fixed or determinable payments and fixed maturities as HTM investments. 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.

(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 32).

(f) Operating Leases

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

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

In determining whether or not there is an indication of the operating lease treatment, the retention of ownership title to the leased property, period of lease contract relative to the estimated 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 equity securities as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Bank treats "significant" generally as 20% or more of the original cost of the investment, and "prolonged" if greater than 6 months.

As of December 31, 2012 and 2011, the required allowance for impairment losses on AFS equity securities amounted to P345.3 million and P316.2 million, respectively (see Note 16). As of December 31, 2012 and 2011, AFS equity securities amounted to P142.4 million and P218.8 million, respectively (see Note 9).

As of December 31, 2012 and 2011, the required allowance for impairment losses on AFS debt securities amounted to nil and P43.3 million, respectively (see Note 9). As of December 31, 2012 and 2011, AFS debt securities amounted to P20.0 billion and P22.6 billion, respectively (see Note 9).

As of December 31, 2012 and 2011, the carrying value of AFS securities of the Bank amounted to P20.2 billion and P22.8 billion, respectively (see Note 9).

(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, 2012 and 2011, the carrying value of AFS unquoted equity securities of the Bank amounted to P142.4 million and P218.8 million, 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. 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, 2012 and 2011, required allowance for credit losses on loans and receivables amounted to P4.0 billion and P4.1 billion (as restated), respectively (see Notes 10 and 16). The carrying value of loans and receivables amounted to P40.3 billion and P32.9 billion (as restated) as of December 31, 2012 and 2011, 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 31 to the financial statements, the Bank recognized deferred tax assets amounting to P814.8 million and P428.4 million as of December 31, 2012 and 2011, 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 P1.5 billion and P1.9 billion as of December 31, 2012 and 2011, respectively (see Note 31).

(e) *Impairment of Nonfinancial Assets*

Property and Equipment, Investment Properties, Non-current assets Held for Sale 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, 2012 and 2011, the combined carrying value of the property and equipment, investment properties, noncurrent assets held for sale and software costs amounted to P5.3 billion and P6.0 billion, respectively.

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

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, and computer software.

(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 4.0% in 2012 and 5.0% in 2011 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 Bank's retirement obligation amounted to P529.8 million and P427.1 million as of December 31, 2012 and 2011, respectively (see Note 28). As of December 31, 2012 and 2011, the net pension asset of the Bank amounted to P69.2 million and P41.6 million, respectively (included under "Other assets" account in Note 15 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 are properly identified, assessed, measured and managed. The diligent monitoring and management of all financial risks, notably credit, market, liquidity, and operational risks, require the development of a risk-conscious culture that will influence daily business activities and decision-making.

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

Risk Management Structure

The BOD is ultimately responsible for identifying and controlling risks; however, there are separate independent units at the BOD and management levels, responsible for managing and monitoring financial 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 BOD as a whole, as well as the individual members.

Audit Committee

This is a required BOD sub-committee 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 (RMD)

The RMD 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 RMD 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.

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

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

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

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

Risk Mitigation

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.

Excessive Risk Concentration

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

Credit risk concentration on loans is managed through internal and regulatory single borrowers and group limits. Borrowers that are considered large in size are regularly monitored and reported to the BROC. Also, limits for exposure on specific economic activity groups are in place allowing the Bank to maintain a strategic breakdown of credit risk of different segments. Having these controls in place allow the Bank to proactively monitor exposure status and to act upon limit breaches whenever necessary.

Credit Risk

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

The Bank has in place a credit 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 Bank's maximum exposure to credit risk on loans and receivable as of December 31, 2012 and 2011:

	December 31, 2012		December 31, 2011 (As Restated)	
	Maximum Exposure		Maximum Exposure	
	Before Collateral	After Financial Effect of Collateral or Credit Enhancement	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
Receivable from customers:				
Term loans	**P20,609,269,763**	**P19,783,775,060**	P9,283,602,272	P8,568,219,161
Direct advances	**9,389,957,408**	**6,139,745,144**	13,115,686,696	13,121,360,943
Bills purchased, import bills and trust receipts	**4,807,051,347**	**4,807,051,347**	1,027,743,575	1,044,391,529
Agri-agra loans	**769,735,401**	**686,227,218**	4,549,501,570	4,302,020,005
Others	**2,148,727,044**	**1,444,874,590**	1,843,129,333	1,205,635,027
	37,724,740,963	**32,861,673,359**	29,819,663,446	28,241,626,665
Sales contracts receivable	**1,422,158,955**	**-**	1,724,696,192	-
Accrued interest receivable	**680,873,648**	**680,873,648**	806,727,430	806,727,430
Accounts receivable	**242,942,755**	**242,942,755**	349,480,477	349,480,477
Unquoted debt securities	**241,935,356**	**241,935,356**	218,570,577	218,570,577
Returned checks and other cash items (RCOCI)	**6,327,195**	**6,327,195**	1,055,130	1,055,130
	P40,318,978,872	**P34,033,752,313**	P32,920,193,252	P29,617,460,279

For the other financial assets, the carrying amounts represent the maximum exposure to credit risk as of December 31, 2012 and 2011.

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 credit losses and unearned interest income) based on the Bank's credit rating (in thousands).

	December 31, 2012					
	Neither Past Due nor Individually Impaired					
	High Grade	**Standard Grade**	**Substandard**	**Unrated**	**Past Due or Impaired**	**Total**
Loans and receivables:						
Receivable from customers	**P4,202,759**	**P19,301,374**	**P3,005,988**	**P6,420,665**	**P7,046,907**	**P39,977,693**
Sales contract receivable	**-**	**-**	**-**	**1,002,292**	**419,867**	**1,422,159**
Unquoted debt securities	**-**	**-**	**-**	**193**	**1,399,030**	**1,399,223**
Accrued interest receivable	**-**	**-**	**-**	**624,020**	**290,209**	**914,229**
Accounts receivable	**-**	**-**	**-**	**740,844**	**16,189**	**757,033**
RCOCI	**-**	**-**	**-**	**6,327**	**-**	**6,327**
	P4,202,759	**P19,301,374**	**P3,005,988**	**P8,794,341**	**P9,172,202**	**P44,476,664**

	December 31, 2011					
	Neither Past Due nor Individually Impaired					
	High Grade	Standard Grade	Substandard	Unrated	Past Due or Impaired	Total
Loans and receivables:						
Receivable from customers	P8,481,937	P4,806,293	P10,408,447	P2,060,748	P6,820,656	P32,578,081
Sales contract receivable	-	-	-	1,199,444	525,252	1,724,696
Unquoted debt securities	-	-	-	696	1,467,233	1,467,929
Accrued interest receivable	-	-	-	661,130	272,596	933,726
Accounts receivable	-	-	-	569,543	16,803	586,346
RCOCI	-	-	-	1,055	-	1,055
	P8,481,937	P4,806,293	P10,408,447	P4,492,616	P9,102,540	P37,291,833

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 statements of financial position leverage vis-a-vis the industry in which the borrower operates, very good profit track record, timely payments, no history of payment delinquencies, high level of liquidity, strong operating trends and no likely existing 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, 2012		
	AA - A	**Below BBB or Unrated**	**Total**
Due from BSP	**P -**	**P16,604,392,945**	**P16,604,392,945**
Due from other banks	**2,227,220,890**	**561,584,679**	**2,788,805,569**
Interbank loans receivable and securities purchased under resale agreements	**737,114,265**	**-**	**737,114,265**
	2,964,335,155	**17,165,977,624**	**20,130,312,779**
Financial assets at FVPL:			
Government securities held for trading	**-**	**1,029,731,979**	**1,029,731,979**
Derivative assets*	**51,080,896**	**21,551,250**	**72,632,146**
Other debt securities	**-**	**1,403,278**	**1,403,278**
	51,080,896	**1,052,686,507**	**1,103,767,403**
AFS securities - gross:			
Quoted government securities	**-**	**14,260,935,281**	**14,260,935,281**
Quoted other debt securities	**1,363,905,166**	**410,143,000**	**1,774,048,166**
Unquoted other debt securities	**3,991,349,296**	**-**	**3,991,349,296**
Unquoted equity securities	**-**	**487,654,216**	**487,654,216**
	5,355,254,462	**15,158,732,497**	**20,513,986,959**
Loans and receivables - gross:			
Unquoted debt securities	**797,168,422**	**602,054,290**	**1,399,222,712**
	797,168,422	**602,054,290**	**1,399,222,712**
	P9,167,838,935	**P33,979,450,918**	**P43,147,289,853**

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

	December 31, 2011		
	AA - A	Below BBB or Unrated	Total
Due from BSP	P -	P9,425,249,720	P9,425,249,720
Due from other banks	2,842,977,314	365,563,665	3,208,540,979
Interbank loans receivable and securities purchased under resale agreements	2,332,443,705	11,700,000,000	14,032,443,705
	5,175,421,019	21,490,813,385	26,666,234,404
Financial assets at FVPL:			
Government securities held for trading	-	433,480,282	433,480,282
Derivative assets*	107,995,368	28,860,866	136,856,234
Other debt securities	-	1,502,328	1,502,328
	107,995,368	463,843,476	571,838,844
AFS securities - gross:			
Quoted government securities	-	17,675,522,582	17,675,522,582
Quoted other debt securities	95,399,306	768,483,327	863,882,633
Unquoted other debt securities	3,542,927,093	564,956,780	4,107,883,873
Unquoted equity securities	-	491,808,611	491,808,611
	3,638,326,399	19,500,771,300	23,139,097,699
Loans and receivables - gross:			
Unquoted debt securities	838,954,483	628,974,637	1,467,929,120
	838,954,483	628,974,637	1,467,929,120
	P9,760,697,269	P42,084,402,798	P51,845,100,067

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

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

	2012	2011
Term loans	**P1,793,010,285**	P1,274,479,139
Agri-agra loans	**759,570,587**	199,277,265
Direct advances	**9,315,374**	565,910,014
Others	**22,708,481**	45,705,226
	P2,584,604,727	P2,085,371,644

Aging Analysis of Past Due but Not Impaired

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

	December 31, 2012			
	1-30 Days	**31-60 Days**	**61-90 Days**	**Total**
Receivable from customers:				
Direct advances	**P2,320,000**	**P950,000**	**P4,806,760**	**P8,076,760**
Term loans	**1,665,908**	**-**	**-**	**1,665,908**
Bills purchased, import bills and trust receipts	**406,250**	**-**	**-**	**406,250**
Others	**68,735,575**	**22,832,604**	**28,539,776**	**120,107,955**
Sales contract receivable	**38,237,808**	**-**	**378,949**	**38,616,757**
	P111,365,541	**P23,782,604**	**P33,725,485**	**P168,873,630**

	December 31, 2011			
	1-30 Days	31-60 Days	61-90 Days	Total
Receivable from customers:				
Direct advances	P45,749,465	P32,778,129	P65,924,756	P144,452,350
Term loans	41,569,258	1,695,282	3,752,741	47,017,281
Agri-agra	6,321,943	2,867,504	113,270,000	122,459,447
Bills purchased, import bills and trust receipts	6,213,957	-	-	6,213,957
Others	109,967,702	30,755,951	5,681,242	146,404,895
Sales contract receivable	11,063,835	7,026,992	32,535,951	50,626,778
	P220,886,160	P75,123,858	P221,164,690	P517,174,708

Based on the top 20 past due loans as of December 31, 2012 and 2011, the Bank has secured loans of P2.2 billion and P2.0 billion, respectively, which are collateralized by either real estate mortgage or chattel mortgage with total fair market value of P1.0 billion and P2.9 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.

Liquidity Risk and Funding Management

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

The Bank has available credit lines from various counterparties that it can utilize to meet sudden liquidity demands. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration 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, 2012 and 2011 based on contractual undiscounted repayment obligations (in millions).

	December 31, 2012					
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Total**
Deposit liabilities:						
Demand	**P15,390**	**P -**	**P -**	**P -**	**P -**	**P15,390**
Savings	**12,568**	**17,844**	**859**	**-**	**-**	**31,271**
Time	**31**	**12,400**	**3,756**	**3,626**	**-**	**19,813**
Bills payable	**-**	**37**	**58**	**479**	**2,702**	**3,276**
Manager's check and acceptances payable	**-**	**372**	**-**	**-**	**-**	**372**
Accrued interest and other expenses	**425**	**-**	**-**	**-**	**-**	**425**
Other liabilities*	**-**	**-**	**6,528**	**-**	**-**	**6,528**
	28,414	**30,653**	**11,201**	**4,105**	**2,702**	**77,075**
Financial liabilities at FVPL	**-**	**-**	**-**	**1,116**	**2,217**	**3,333**
Total undiscounted financial liabilities	**P28,414**	**P30,653**	**P11,201**	**P5,221**	**P4,919**	**P80,408**

**amounts exclude withholding tax payable*

	December 31, 2011					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Deposit liabilities:						
Demand	P15,270	P -	P -	P -	P -	P15,270
Savings	10,542	22,430	133	-	-	33,105
Time	35	15,582	4,869	3,671	112	24,269
Bills payable	267	-	-	-	3,094	3,361
Manager's check and acceptances payable	-	354	-	-	-	354
Accrued interest and other expenses	332	-	-	-	-	332
Other liabilities*	904	-	-	-	-	904
	27,350	38,366	5,002	3,671	3,206	77,595
Financial liabilities at FVPL	-	-	-	1,192	2,367	3,559
Total undiscounted financial liabilities	P27,350	P38,366	P5,002	P4,863	P5,573	P81,154

**amounts exclude withholding tax payable*

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

	December 31, 2012				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Commitments	**P -**	**P61,284**	**P163,731**	**P -**	**P225,015**
Contingent liabilities	**32,562,211**	**1,728,084**	**16,401**	**1,801,208**	**36,107,904**
	P32,562,211	**P1,789,368**	**P180,132**	**P1,801,208**	**P36,332,919**

	December 31, 2011				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Commitments	P -	P335,378	P9,317	P -	P344,695
Contingent liabilities	32,004,476	620,039	1,500,044	478,414	34,602,973
	P32,004,476	P955,417	P1,509,361	P478,414	P34,947,668

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 Bank also measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of asset-liability gap analysis. This analysis provides the Bank with a measure of its susceptibility to changes in interest rates. The repricing gap is calculated by first distributing the assets and liabilities contained in the Bank's statement of financial position into tenor buckets (or the time remaining to maturity if there is no repricing), and then obtaining the difference between the total of the repricing (interest rate-sensitive) assets and repricing (interest rate-sensitive) liabilities.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

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, 2012		
Currency	**Changes in Interest Rates (In Basis Points)**	**Sensitivity of Net Interest Income (In Millions)**	**Sensitivity of Other Comprehensive Income (In Millions)**
PHP	**+200**	**231**	**(1,586)**
USD	**+100**	**6**	**(547)**
PHP	**-200**	**(231)**	**1,586**
USD	**-100**	**(6)**	**547**

	December 31, 2011		
Currency	Changes in Interest Rates (In Basis Points)	Sensitivity of Net Interest Income (In Millions)	Sensitivity of Other Comprehensive Income (In Millions)
PHP	+200	218	(1,336)
USD	+100	10	(880)
PHP	-200	(218)	1,336
USD	-100	(10)	880

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, 2012 and 2011. The sensitivity of other comprehensive income is calculated by revaluing fixed-rate AFS debt securities as of December 31, 2012 and 2011. 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 2012 and 2011, 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, 2012 and 2011. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency (based on USD equivalents in thousands):

	December 31, 2012			
	USD	**Euro**	**Others**	**Total**
Assets				
Due from other banks	**$714**	**$419**	**$2,847**	**$3,980**
Loans and receivables	**3,706**	**-**	**-**	**3,706**
Total assets	**4,420**	**419**	**2,847**	**7,686**
Liabilities				
Deposit liabilities	**-**	**861**	**-**	**861**
Manager's checks and acceptances payable	**324**	**-**	**-**	**324**
Other liabilities	**1,058**	**-**	**-**	**1,058**
Total liabilities	**1,382**	**861**	**-**	**2,243**
Net Exposure	**$3,038**	**($442)**	**$2,847**	**$5,443**

	December 31, 2011			
	USD	Euro	Others	Total
Assets				
Due from other banks	$13,408	$668	$2,680	$16,756
Interbank loans receivable and SPURA	6,204	-	-	6,204
Loans and receivables	8,095	-	-	8,095
Total assets	27,707	668	2,680	31,055
Liabilities				
Deposit liabilities	-	458	-	458
Manager's checks and acceptances payable	1,391	-	-	1,391
Total liabilities	1,391	458	-	1,849
Net Exposure	$26,316	$210	$2,680	$29,206

The table below indicates the currencies which the Bank has significant exposure to at December 31, 2012 and 2011 based on its foreign currency-denominated assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of other currency rates against the PHP, with all other variables held constant on the results of operations (due to the fair value of currency sensitive monetary assets and liabilities) and 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, 2012				
Currency				
USD	**P1.00**	**P6.71**	**(P1.00)**	**(P6.71)**
Euro	**0.50**	**0.02**	**(0.50)**	**(0.02)**
Others	**0.40**	**0.37**	**(0.40)**	**(0.37)**
December 31, 2011				
Currency				
USD	P1.00	P1.54	(P1.00)	(P1.54)
Euro	0.50	0.14	(0.50)	(0.14)
Others	0.40	0.48	(0.40)	(0.48)

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, 2012 and 2011 (in thousands):

	December 31, 2012		December 31, 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial assets at FVPL:				
Government securities held for trading	**P1,029,732**	**P1,029,732**	P433,480	P433,480
Derivative assets	**72,632**	**72,632**	136,856	136,856
Other debt securities	**1,403**	**1,403**	1,502	1,502
	1,103,767	**1,103,767**	571,838	571,838
AFS securities:				
Quoted government securities	**14,260,936**	**14,260,936**	17,675,522	17,675,522
Quoted other debt securities	**1,774,048**	**1,774,048**	863,883	863,883
Unquoted other debt securities	**3,991,349**	**3,991,349**	4,064,620	4,064,620
Unquoted equity securities	**142,357**	**142,357**	218,828	218,828
	20,168,690	**20,168,690**	22,822,853	22,822,853
Loans and receivable:				
COCI	**1,329,641**	**1,329,641**	1,073,094	1,073,094
Due from BSP and other banks	**19,393,199**	**19,393,199**	12,633,791	12,633,791
Interbank loans receivable and SPURA	**737,114**	**737,114**	14,032,444	14,032,444
	21,459,954	**21,459,954**	27,739,329	27,739,329
Receivable from customers	**37,913,985**	**38,379,002**	30,061,683	30,467,657
Less unearned interest	**189,244**	**189,244**	242,020	242,020
	37,724,741	**38,189,758**	29,819,663	30,225,637
Sales contract receivable	**1,422,159**	**1,422,159**	1,724,696	1,724,696
Accrued interest receivable	**680,874**	**680,874**	806,727	806,727
Accounts receivable	**241,935**	**241,935**	349,480	349,480
Unquoted debt securities	**242,621**	**242,621**	218,571	218,571
RCOCI	**6,327**	**6,327**	1,055	1,055
	40,318,657	**40,783,996**	32,920,192	33,326,166
	61,778,611	**62,243,950**	60,659,521	61,065,495
	P83,051,068	**P83,516,407**	P84,054,212	P84,460,186

	December 31, 2012		December 31, 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Liabilities				
Financial liabilities at FVPL	**P47,535**	**P47,535**	P224,352	P224,352
Financial liabilities at amortized cost				
Deposit liabilities				
Demand	**15,390,173**	**15,390,173**	15,270,465	15,270,465
Savings	**31,232,895**	**31,260,520**	33,035,654	33,043,122
Time	**19,269,618**	**19,421,184**	23,501,916	23,501,632
Bills payable	**1,433,558**	**1,433,558**	2,312,082	2,312,082
Manager's check and acceptances payable	**371,966**	**371,966**	353,906	353,906
Accrued interest and other expenses	**425,250**	**425,250**	332,134	332,134
Other liabilities*	**5,448,294**	**5,448,294**	903,750	903,750
	73,571,754	**73,750,945**	75,709,907	75,717,091
	P73,619,289	**P73,798,480**	P75,934,259	P75,941,443

**amounts exclude withholding tax payable.*

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, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Financial Assets				
Financial assets at FVPL				
Government securities held for trading	**P1,029,732**	**P -**	**P -**	**P1,029,732**
Derivative assets	**51,081**	**21,551**	**-**	**72,632**
Other debt securities	**1,403**	**-**	**-**	**1,403**
AFS securities				
Quoted government securities	**14,260,936**	**-**	**-**	**14,260,936**
Quoted other debt securities	**1,774,048**	**-**	**-**	**1,774,048**
Unquoted other debt securities	**-**	**3,991,349**	**-**	**3,991,349**
Unquoted equity securities	**-**	**-**	**142,357**	**142,357**
Financial Liabilities				
Financial liabilities at FVPL	**47,535**	**-**	**-**	**47,535**

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Financial Assets				
Financial assets at FVPL				
Government securities held for trading	P433,480	P -	P -	P433,480
Derivative assets	107,995	28,861	-	136,856
Other debt securities	1,502	-	-	1,502
AFS securities				
Quoted government securities	17,675,522	-	-	17,675,522
Quoted other debt securities	863,883	-	-	863,883
Unquoted other debt securities	-	4,064,620	-	4,064,620
Unquoted equity securities	-		218,828	218,828
Financial Liabilities				
Financial liabilities at FVPL	-	224,352	-	224,352

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, 2012 and 2011 (in thousands):

	2012	2011	
	Unquoted Equity Securities	Unquoted Equity Securities	Unquoted Other Debt Securities
Balance at beginning of year	**P218,828**	P292,875	P7,384,838
Add:			
Additions	-	-	598,683
Unrealized gains during the year	-	-	184,368
Reversal of impairment loss	-	-	622,871
	-	-	1,405,922
Less:			
Unrealized losses during the year	**821**	-	1,049,553
Disposals	**3,333**	-	3,245,787
Impairment loss	**72,317**	74,047	-
Reclassification	-	-	4,495,420
	76,471	74,047	8,790,760
Balance at end of year	**P142,357**	P218,828	P -

During 2012, there were no outstanding unquoted other debt securities.

7. Interbank Loans Receivable and SPURA

This account consists of:

	2012	2011
Interbank loans receivable	**P737,114,265**	P2,332,443,705
SPURA	**-**	11,700,000,000
	P737,114,265	P14,032,443,705

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

	2012	2011
Interbank loans receivable	**P5,977,592**	P9,100,367
SPURA	**182,410,313**	172,170,278
	P188,387,905	P181,270,645

In 2012 and 2011, peso-denominated interbank loans receivable bear interest rates ranging from 3.6% to 5.0% and 4.0% to 4.5%, respectively. Dollar-denominated interbank loans receivable bear interest rates ranging from 0.0% to 1.1% and from 0.0% to 1.0% in 2012 and 2011, respectively.

In 2012 and 2011, interest rates earned on SPURA averaged 4.0% and 4.3%, respectively.

8. Financial Assets and Financial Liabilities at FVPL

Financial assets at FVPL consist of:

	2012	2011
Government securities held for trading	**P1,029,731,979**	P433,480,282
Derivative assets	**72,632,146**	136,856,234
Private debt securities held for trading	**1,403,278**	1,502,328
	P1,103,767,403	P571,838,844

Financial liabilities at FVPL, on the other hand, represent the negative mark-to-market valuation of the Bank's credit derivatives. As of December 31, 2012 and 2011, the financial liabilities at FVPL amount to P47.5 million and P224.4 million, respectively (see Note 37).

As of December 31, 2012 and 2011, financial assets and liabilities through FVPL are adjusted for unrealized gains and losses of P81.2 million and P233.2 million, respectively (see Note 27).

<u>Derivative Financial Instruments</u>
The table below shows the fair values of derivative financial instruments entered into by the Bank, recorded as derivative assets or derivative liabilities, together with the notional amount and leverage exposure. The leverage exposure is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The leverage exposure indicates the volume of transactions outstanding as of December 31, 2012 and 2011 and is not indicative of either market risk or credit risk.

	December 31, 2012			
	Derivative Assets	**Derivative Liabilities**	**Notional Amount**	**Leverage Exposure**
Freestanding derivatives:				
Warrants	**P21,551,250**	**P -**	**$50,000**	**$ -**
Embedded derivatives:				
Credit default swaps	**51,080,896**	**47,534,504**	**81,187,500**	**84,267,500**
	P72,632,146	**P47,534,504**	**$81,237,500**	**$84,267,500**

	December 31, 2011			
	Derivative Assets	Derivative Liabilities	Notional Amount	Leverage Exposure
Freestanding derivatives:				
Warrants	P23,016,000	P -	$50,000	$ -
Forward exchange bought	5,298,866	-	25,000,000	-
Forward exchange sold	546,000	-	60,000,000	-
Embedded derivatives:				
Credit default swaps	107,995,368	224,351,551	81,187,500	84,267,500
	P136,856,234	P224,351,551	$166,237,500	$84,267,500

9. Investment Securities

This account consists of (amounts in thousands):

AFS Securities	*Note*	**2012**	2011
Quoted investments			
Government securities		**P14,260,936**	P17,675,522
Other debt securities		**1,774,048**	863,883
		16,034,984	18,539,405
Unquoted investments			
Debt securities, net of allowance for impairment losses of nil and P43.3 million as of December 31, 2012 and 2011, respectively	*16*	**3,991,349**	4,064,620
Equity securities, net of allowance for impairment losses of P345.3 million and P272.9 million as of December 31, 2012 and 2011, respectively	*16*	**142,357**	218,829
		P20,168,690	P22,822,854

<u>AFS Equity Securities</u>
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 34).

In 2012 and 2011, dividend income from this investment (included under "Miscellaneous income" account in the statements of income) amounted to P0.6 million and P1.8 million, respectively.

The movements of net unrealized gains (losses) on AFS securities follow:

	2012	2011 (As Restated - see Note 38)
Balance at beginning of year	**P965,664,153**	(P159,139,309)
Unrealized gain recognized as other comprehensive income	**1,534,969,163**	2,253,332,114
Realized gains taken to profit or loss	**(1,246,506,185)**	(1,128,528,652)
Balance at end of year	**P1,254,127,131**	P965,664,153

HTM Investments

As of January 1,2011, 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 Financial Assistance Agreement (FAA) discussed in Note 35 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 18).

On July 13, 2011, the Bank sold a portion of its HTM investments amounting to P430.5 million which resulted in a gain of P83.9 million. The sale of these investments resulted in the reclassification of the remaining unsold securities from HTM to AFS investments. Moreover, the Bank is prohibited from designating securities of HTM category for the next two financial years (2012 and 2013). The carrying value and the fair value of these investments at the date of reclassification amounted to P9.3 billion and P11.6 billion, respectively.

10. Loans and Receivables

This account consists of:

	Note	**2012**	2011 (As Restated - see Note 38)
Receivables from customers:	*22*		
Term loans		**P21,741,674,054**	P10,463,959,658
Direct advances		**10,085,078,926**	14,161,070,631
Bills purchased, import bills and trust receipts		**4,886,505,417**	1,149,981,998
Agri-agra loans		**937,971,190**	4,844,337,942
Others		**2,326,463,281**	1,958,730,649
		39,977,692,868	32,578,080,878
Unearned interest income		**(189,244,328)**	(242,019,610)
		39,788,448,540	32,336,061,268

Forward

	Note	2012	2011 (As Restated - see Note 38)
Sales contracts receivable		**P1,422,158,955**	P1,724,696,192
Unquoted debt securities	*37*	**1,399,222,712**	1,467,929,120
Accrued interest receivable:			
Loans and receivables		**586,638,288**	513,243,277
Trading and investment securities		**325,244,693**	415,569,475
Due from BSP and other banks		**2,322,778**	1,308,391
Interbank loans and SPURA		**23,174**	3,604,833
Accounts receivable		**757,033,433**	586,345,502
Returned checks and other check items		**6,327,195**	1,055,130
		44,287,419,768	37,049,813,188
Less allowance for impairment and credit losses	*16*	**(3,968,440,896)**	(4,129,619,936)
		P40,318,978,872	P32,920,193,252

Sales contract receivables arise mainly from the sale of foreclosed properties booked under "Investment properties" account. Accounts receivable mainly consists of amounts due from customers and other parties under open-account arrangements, claims such as tax refund and insurance proceeds, receivables from employees, receivable from BSP and other miscellaneous receivables.

In 2012, the Bank resolved the report qualification as reported by its external auditors in their audit report dated March 27, 2012 pertaining to the deficiency in the allowance for impairment and credit losses amounting to P309.0 million as of December 31, 2011. Consequently, the Bank restated its 2011 financial statements (see Notes 16 and 38).

Regulatory Reporting

As of December 31, 2012 and 2011, the breakdown of receivables from customers as to collateral is as follows (amounts in thousands, except percentages):

	2012		2011	
	Amount	**%**	Amount	%
Loans secured by:				
Real estate	**P5,847,617**	**14.6**	P7,369,341	22.6
Chattel	**4,277,378**	**10.7**	992,340	3.0
Deposit hold-out	**1,992,156**	**5.0**	1,153,903	3.6
Deed of assignment and others	**2,342,860**	**5.9**	9,884,930	30.4
	14,460,011	**36.2**	19,400,514	59.6
Unsecured	**25,517,682**	**63.8**	13,177,567	40.4
	P39,977,693	**100.0**	P32,578,081	100.0

As of December 31, 2012 and 2011, information on the concentration of credit as to industry follows (amounts in thousands, except percentages):

	2012		2011	
	Amount	**%**	Amount	%
Transportation, storage and communications	**P8,922,936**	**22.3**	P5,488,956	16.8
Other community, social and personal activities	**8,276,310**	**20.7**	1,098,411	3.4
Manufacturing (various industries)	**6,307,228**	**15.8**	7,290,664	22.4
Real estate, renting and business services	**5,953,990**	**14.9**	3,600,695	11.1
Construction	**5,175,490**	**13.0**	882,797	2.7
Financial intermediaries	**2,320,011**	**5.8**	3,334,082	10.2
Wholesale and retail trade	**2,239,124**	**5.6**	8,006,209	24.6
Agriculture	**337,919**	**0.8**	289,544	0.9
Others	**444,685**	**1.1**	2,586,723	7.9
	P39,977,693	**100.0**	P32,578,081	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. The Bank's Risk Committee constantly monitors the credit risk concentration of the Bank.

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 credit losses, provided that interest on the said receivables shall not be accrued. Based on the BSP ROE dated January 31, 2012 and October 31, 2010, details on the Bank's nonperforming loans (NPLs) are as follows (in thousands):

	2012	2011
Total NPLs	**P4,239,823**	P4,880,482
Less NPLs fully covered by allowance for credit losses	**-**	-
	P4,239,823	P4,880,482

Under Section X309.1 of Manual of Regulations for Banks (MORB), 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, 2012 and 2011, restructured loans amounted to P2.6 billion and P2.1 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, 2012 and 2011, restructured receivables from customers considered as NPLs amounted to P1.4 billion and P0.8 billion, respectively.

As of December 31, 2012 and 2011, the Bank's loan portfolio includes non-risk loans totaling P4.6 billion and P1.2 billion, respectively.

Interest Income on Loans and Receivables
This account consists of:

	Note	**2012**	2011
Receivable from customers:			
Term loans		**P894,288,845**	P807,444,076
Direct advances		**674,824,173**	616,103,729
Agri-agra loans		**154,929,624**	357,168,485
Bills purchased, import bills and trust receipts		**54,139,355**	121,808,928
Others		**349,889,263**	403,687,998
		2,128,071,260	2,306,213,216
Sales contract receivable		**95,968,416**	48,888,137
Unquoted debt securities	*37*	**25,470,058**	279,579,229
		P2,249,509,734	P2,634,680,582

As of December 31, 2012 and 2011, 85.1% and 60.9%, respectively, of the total receivables from customers were subject to periodic interest repricing. Peso-denominated loans earn annual fixed interest rates ranging from 1.0% to 54.0% in 2012 and from 1.5% to 54.0% in 2011. Dollar-denominated loans earn annual fixed interest rates ranging from 1.0% to 13.5% in 2012 and from 0.1% to 20.5% in 2011.

Unquoted debt instruments bear fixed interest rates per annum ranging from 6.0% to 11.5% in 2012 and 2011.

Sales contract receivables bear fixed interest rates ranging from 2.7% to 19.0% and 8.0% to 19.0% in 2012 and 2011, respectively.

11. Investment in an Associate

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

	Note	**2012**	2011
Acquisition cost (24.25%-owned)		**P71,740,650**	P71,740,650
Accumulated equity in net loss and OCI:			
Balance at beginning of year		**(16,673,592)**	(8,206,914)
Share in net loss		**(1,174,721)**	(2,360,915)
Share in OCI		**633,174**	-
Other adjustments		**5,652,288**	(6,105,763)
Balance at end of year		**(11,562,851)**	(16,673,592)
Allowance for impairment loss	*16*	**(2,877,886)**	(5,000,000)
		P57,299,913	P50,067,058

The following table shows the summarized financial information of BIC:

	2012	2011
Assets	**P235,059,835**	P238,165,361
Liabilities	**6,712,304**	1,269,385
Net Assets	**228,347,531**	236,895,976
Revenues	**23,977,399**	13,660,628
Net Loss for the Year	**(4,844,208)**	(15,554,972)

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

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 P300.0 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. Subsequently, in its letter to BIC dated January 24, 2013, the SEC reiterated its findings that BIC has been unable to meet the minimum paid up capital requirement for an investment house from 2008 to 2011. The Commission so ordered BIC to amend its Articles of Incorporation, specifically its primary purpose, by deleting its capacity "to engage in and conduct business as an investment house" within 15 days from the date receipt of the letter or up to February 22, 2013.

In its letter to the SEC dated February 18, 2013, BIC said that the management still aims and considers the augmentation of its capital resources with high priority to comply with the mandatory level required by law. In compliance with the order from SEC, BIC will submit the amendment of the Articles of Incorporation during the annual regular stockholder's meeting to be convened in April 2013, if BIC will unable to meet the capital requirements before that time.

As of December 31, 2012 and 2011, BIC's outstanding capital amounted to P228.3 million and P236.9 million, respectively.

12. Property and Equipment

The movements in property and equipment are as follows:

	December 31, 2012		
At Cost	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost			
Balance at January 1	**P1,504,600,354**	**P547,231,344**	**P2,051,831,698**
Additions	**282,387,151**	**49,640,161**	**332,027,312**
Disposals and others	**(103,909,928)**	**(3,161,410)**	**(107,071,338)**
Balance at December 31	**1,683,077,577**	**593,710,095**	**2,276,787,672**
Accumulated depreciation and amortization			
Balance at January 1	**961,870,751**	**377,613,571**	**1,339,484,322**
Depreciation and amortization	**165,899,936**	**65,086,115**	**230,986,051**
Disposals and others	**(23,188,817)**	**1,586,312**	**(21,602,505)**
Balance at December 31	**1,104,581,870**	**444,285,998**	**1,548,867,868**
Net book value at December 31	**P578,495,707**	**P149,424,097**	**P727,919,804**

		December 31, 2012		
At Appraised Values	***Note***	**Land**	**Buildings**	**Total**
Revalued amount				
Balance at January 1		**P140,759,306**	**P1,339,534,998**	**P1,480,294,304**
Additions	*34*	**9,709,236**	**6,249,150**	**15,958,386**
Reclassifications		**(32,857,949)**	**41,210,738**	**8,352,789**
Disposals and others		**(6,932,626)**	**(8,744,443)**	**(15,677,069)**
Balance at December 31		**110,677,967**	**1,378,250,443**	**1,488,928,410**
Accumulated depreciation				
Balance at January 1		**-**	**295,100,892**	**295,100,892**
Depreciation		**-**	**60,621,597**	**60,621,597**
Disposals and others		**-**	**2,445,424**	**2,445,424**
Balance at December 31		**-**	**358,167,913**	**358,167,913**
Allowance for impairment losses	*16*	**21,441,062**	**2,044,886**	**23,485,948**
Net book value at December 31		**P89,236,905**	**P1,018,037,644**	**P1,107,274,549**

	December 31, 2011		
At Cost	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at January 1	P1,332,439,539	P470,794,818	P1,803,234,357
Additions	239,794,508	77,517,064	317,311,572
Disposals and others	(67,633,693)	(1,080,538)	(68,714,231)
Balance at December 31	1,504,600,354	547,231,344	2,051,831,698
Accumulated depreciation and amortization			
Balance at January 1	861,828,922	312,950,196	1,174,779,118
Depreciation and amortization	124,131,561	64,480,044	188,611,605
Disposals and others	(24,089,732)	183,331	(23,906,401)
Balance at December 31	961,870,751	377,613,571	1,339,484,322
Net book value at December 31	P542,729,603	P169,617,773	P712,347,376

		December 31, 2011		
At Appraised Values	*Note*	Land	Buildings	Total
Revalued amount				
Balance at January 1		P326,587,072	P1,294,766,848	P1,621,353,920
Additions	*34*	-	113,899,908	113,899,908
Disposals and others		(185,827,766)	(69,131,758)	(254,959,524)
Balance at December 31		140,759,306	1,339,534,998	1,480,294,304
Accumulated depreciation				
Balance at January 1			362,896,262	362,896,262
Depreciation		-	45,570,625	45,570,625
Disposals and others		-	(113,365,995)	(113,365,995)
Balance at December 31		-	295,100,892	295,100,892
Allowance for impairment losses	*16*	21,441,062	2,044,886	23,485,948
Net book value at December 31		P119,318,244	P1,042,389,220	P1,161,707,464

The Bank engaged various accredited independent appraisers to determine the fair value of its land and buildings. Fair value is determined by reference to market based 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 buildings were last appraised in 2010. Management assessed that there has been no significant changes in the value of said properties since the last appraisal.

Appraisal increment as presented under "Revaluation increment on property" account amounts to P38.7 million and P104.1 million, as of December 31, 2012 and 2011, respectively.

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

	December 31, 2012			December 31, 2011		
	Land	**Buildings**	**Total**	Land	Buildings	Total
Cost	**P91,570,746**	**P1,298,953,099**	**P1,390,523,845**	P121,652,085	P1,260,237,654	P1,381,889,739
Accumulated depreciation	**-**	**(315,062,592)**	**(315,062,592)**	-	(265,529,927)	(265,529,927)
	P91,570,746	**P983,890,507**	**P1,075,461,253**	P121,652,085	P994,707,727	P1,116,359,812

13. Investment Properties

The movements in investment properties are as follows:

		December 31, 2012		
	Note	**Land**	**Buildings**	**Total**
Cost				
Balance at January 1		**P3,142,355,870**	**P484,355,788**	**P3,626,711,658**
Additions		**197,045,533**	**109,508,907**	**306,554,440**
Reclassification		**(244,407,782)**	**159,027,485**	**(85,380,297)**
Disposals and others		**(722,645,820)**	**(41,327,298)**	**(763,973,118)**
Balance at December 31		**2,372,347,801**	**711,564,882**	**3,083,912,683**
Accumulated depreciation				
Balance at January 1		**-**	**92,105,329**	**92,105,329**
Depreciation		**-**	**37,741,284**	**37,741,284**
Disposals and others		**-**	**(17,967,988)**	**(17,967,988)**
Balance at December 31		**-**	**111,878,625**	**111,878,625**
Less allowance for impairment losses	*16*	**244,319,045**	**49,809,710**	**294,128,755**
Net book value at December 31		**P2,128,028,756**	**P549,876,547**	**P2,677,905,303**

		December 31, 2011		
	Note	Land	Buildings	Total
Cost				
Balance at January 1		P3,478,647,540	P619,625,218	P4,098,272,758
Additions		197,786,919	61,324,361	259,111,280
Reclassification		(54,656,377)	-	(54,656,377)
Disposals and others		(479,422,212)	(196,593,791)	(676,016,003)
Balance at December 31		3,142,355,870	484,355,788	3,626,711,658
Accumulated depreciation				
Balance at January 1		-	190,597,997	190,597,997
Depreciation		-	23,327,238	23,327,238
Disposals and others		-	(121,819,906)	(121,819,906)
Balance at December 31		-	92,105,329	92,105,329
Less allowance for impairment losses	*16*	135,107,196	98,050,982	233,158,178
Net book value at December 31		P3,007,248,674	P294,199,477	P3,301,448,151

As of December 31, 2012 and 2011, the aggregate fair value of the Bank's investment properties amounted to P4.4 billion and P5.2 billion, respectively, or an increment of P1.7 billion and P1.9 billion over their net carrying value as of December 31, 2012 and 2011, 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 and sale of foreclosed assets consists of the following:

	2012	2011
Gain on assets sold	**P50,398,583**	P48,453,994
Gain on foreclosure	**56,088,056**	95,322,539
	P106,486,639	P143,776,533

As discussed in Notes 18 and 35 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, 2011, the outstanding liability to BSP amounted to P0.9 billion, included under "Bills payable" account in the statement of financial position. This was settled in full in 2012.

Rental income on investment properties (included in "Miscellaneous income" account in the statements of income) in 2012 and 2011 amounted to P3.8 million and P3.4 million, respectively.

Direct operating expenses on investment properties that generated rental income (included under "Miscellaneous expenses" as "Litigation and acquired assets" under "Other expenses - miscellaneous" account in 2012 and 2011 amounted to P0.5 million and P1.9 million, respectively. Direct operating expenses on investment properties that did not generate rental income (included under "Litigation and acquired assets" under "Other expenses - miscellaneous" account) in 2012 and 2011 amounted to P109.7 million and P86.1 million, respectively.

14. Non-current Assets Held for Sale

The movements in noncurrent assets held for sale are as follows:

	2012			2011		
	Land	**Buildings**	**Total**	Land	Buildings	Total
Balance at beginning of year, as restated	**P301,319,250**	**P167,442,945**	**P468,762,195**	P249,398,825	P296,407,834	P545,806,659
Reclassifications	**150,162,771**	**38,037,561**	**188,200,332**	140,271,619	103,635	140,375,254
Disposals	**(227,115,649)**	**(104,016,741)**	**(331,132,390)**	(90,776,019)	(80,615,457)	(171,391,476)
Net increase (decrease) in value of assets	-	-	-	2,424,825	(48,453,067)	(46,028,242)
Balance at end of year	**P224,366,372**	**P101,463,765**	**P325,830,137**	P301,319,250	P167,442,945	P468,762,195

In 2012 and 2011, net gains (losses) on sale of noncurrent assets held for sale amounted to P14.0 million and (P31.5 million), respectively.

15. Other Assets

This account consists of:

	Note	**2012**	2011
Deferred charges - loss on sale to an SPV - gross		**P1,924,629,922**	P1,924,629,922
Withholding tax on PEACe bonds		**580,336,854**	580,336,854
Software costs*		**471,838,480**	346,483,223
Retirement asset	*28*	**69,204,047**	41,564,531
Miscellaneous assets	*23, 35*	**5,134,899,694**	5,072,851,569
		8,180,908,997	7,965,866,099
Less allowance for impairment and credit losses	*16*	**3,027,392,408**	2,420,638,591
		P5,153,516,589	P5,545,227,508

**net of accumulated amortization*

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%

In 2012, the Bank changed its accounting policy on the amortization of deferred charges and restated its 2011 financial statements to comply with Regulatory Accounting Policies (RAP) for banks. Under RAP, the amortization of deferred charges is charged against current operations. Prior to the restatement, the amortization was charged against "Deficit, beginning" (see Note 38).

Amortization of deferred charges charged against profit or loss amounted to P224.1 million and P185.3 million in 2012 and 2011, respectively.

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.

Withholding Tax on PEACe Bonds

This account represents capitalized taxes withheld by the Bureau of Treasury when the Bank's investment in Poverty Eradication and Alleviation Certificates (PEACe) bonds matured on October 18, 2011. This was in relation to the Bureau of Internal Revenue (BIR) ruling No. 370 - 2011, dated October 7, 2011 imposing a 20% withholding tax on accumulated interest income on the PEACe bonds.

On October 22, 2011, the Bank, along with a consortium of other banks with investment in PEACe bonds filed a petition with the Supreme Court seeking a temporary restraining order against the implementation of the said BIR ruling.

As of December 31, 2012 and 2011, allowance for impairment losses on PEACe bonds amounted to P118.8 million and nil, respectively.

Software Costs
Movements in software costs are as follows:

	2012	2011
Cost		
Balance at January 1	**P448,780,391**	P265,674,521
Additions	**216,663,039**	385,400,100
Write-offs and others	**(82,415,616)**	(202,294,230)
Balance at end of year	**583,027,814**	448,780,391
Accumulated amortization		
Balance at January 1	**102,297,168**	104,695,069
Amortization for the year	**43,351,706**	57,917,320
Write-offs and others	**(34,459,540)**	(60,315,221)
Balance at end of year	**111,189,334**	102,297,168
Less allowance for impairment losses	**85,318,010**	-
Net book value	**P386,520,470**	P346,483,223

Miscellaneous Assets
This account includes NPAs amounting to P4.5 billion as of December 31, 2012 and 2011, which were assumed by the Bank in connection with the PSA entered into by the Bank with TRB in 2002 (see Note 35). As of December 31, 2012 and 2011, allowance for impairment losses on these NPAs amounted to P1.7 billion and P1.5 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 Financial Assistance Agreement (FAA) with PDIC as discussed in Note 35 to the financial statements.

16. Allowance for Impairment and Credit Losses

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

	December 31, 2012					
	Loans and Receivables (see Note 10)	**AFS Securities** (see Note 9)	**Property and Equipment** (see Note 12)	**Investment Properties** (see Note 13)	**Other Assets*** (see Notes 11 and 15)	**Total**
Balance at beginning of year, as restated	**P4,129,620**	**P316,244**	**P23,486**	**P233,158**	**P2,425,638**	**P7,128,146**
Provisions charged to operations	**286,805**	**-**	**-**	**67,075**	**382,601**	**736,481**
Write-offs	**-**	**-**	**-**	**-**	**-**	**-**
Reclassifications	**(321,909)**	**72,363**	**-**	**27,500**	**222,046**	**-**
Reversals	**(126,075)**	**(43,310)**	**-**	**(33,604)**	**(15)**	**(203,004)**
Balance at end of year	**P3,968,441**	**P345,297**	**P23,486**	**P294,129**	**P3,030,270**	**P7,661,623**

**Includes allowance for impairment loss on investment in an associate and deferred charges - loss on sale to an SPV*

	December 31, 2011 (As Restated - see Notes 10 and 38)					
	Loans and Receivables (see Note 10)	AFS Securities (see Note 9)	Property and Equipment (see Note 12)	Investment Properties (see Note 13)	Other Assets* (see Note 11 and 15)	Total
Balance at beginning of year	P5,609,372	P761,556	P23,410	P297,842	P2,373,854	P9,066,034
Provisions charged to operations	987,217	170,784	-	-	373,158	1,531,159
Write-offs	(2,264,159)	-	-	(176)	(163,403)	(2,427,738)
Reclassifications	151,243	6,652	76	-	(157,971)	-
Reversals	(354,053)	(622,748)	-	(64,508)	-	(1,041,309)
Balance at end of year	P4,129,620	P316,244	P23,486	P233,158	P2,425,638	P7,128,146

**Includes allowance for impairment loss on investment in an associate and deferred charges - loss on sale to an SPV*

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

	December 31, 2012					
	Term Loans	**Direct Advances**	**Agri-agra Loans**	**Bills Purchased, Import Bills, and Trust Receipts**	**Others**	**Total**
Balance at beginning of year, as restated	**P1,180,357,383**	**P803,364,325**	**P294,836,373**	**P122,238,423**	**P1,728,823,432**	**P4,129,619,936**
Provisions	**36,296,518**	**16,067,538**	**6,350,833**	**114,649,089**	**113,440,693**	**286,804,671**
Reclassifications	**2,895,603**	**(274,624,460)**	**(132,951,417)**	**(157,433,442)**	**240,205,431**	**(321,908,285)**
Reversals	**(87,145,143)**	**(38,930,283)**	**-**	**-**	**-**	**(126,075,426)**
Balance at end of year	**P1,132,404,361**	**P505,877,120**	**P168,235,789**	**P79,454,070**	**P2,082,469,556**	**P3,968,440,896**
Individual impairment						**P3,534,541,199**
Collective impairment						**433,899,697**
						P3,968,440,896
Gross amount of loans and receivables, individually determined to be impaired						**P5,927,236,909**

	December 31, 2011 (As Restated - see Notes 10 and 38)					
	Term Loans	Direct Advances	Agri-agra Loans	Bills Purchased, Import Bills, and Trust Receipts	Others	Total
Balance at beginning of year	P2,298,696,779	P1,167,704,209	P397,757,520	P141,908,117	P1,603,305,335	P5,609,371,960
Provisions	518,069,625	103,888,400	79,134,481	106,521,889	179,602,606	987,217,001
Reclassifications	-	151,242,866	-	-	-	151,242,866
Write-offs	(1,576,404,327)	(507,478,543)	-	(126,191,583)	(54,084,509)	(2,264,158,962)
Reversals	(60,004,694)	(111,992,607)	(182,055,628)	-	-	(354,052,929)
Balance at end of year	P1,180,357,383	P803,364,325	P294,836,373	P122,238,423	P1,728,823,432	P4,129,619,936
Individual impairment						P3,752,137,005
Collective impairment						377,482,931
						P4,129,619,936
Gross amount of loans and receivables, individually determined to be impaired						P6,283,183,297

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

	December 31, 2012			December 31, 2011		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total
Balance at beginning of year, as restated	**P3,752,137,005**	**P377,482,931**	**P4,129,619,936**	P4,477,931,117	P1,131,440,843	P5,609,371,960
Provisions	**412,144,022**	**(125,339,351)**	**286,804,671**	987,217,001	-	987,217,001
Write-offs	**-**	**-**	**-**	(2,264,158,891)	-	(2,264,158,891)
Reclassifications	**(503,664,402)**	**181,756,117**	**(321,908,285)**	551,147,778	(399,904,912)	151,242,866
Reversals	**(126,075,426)**	**-**	**(126,075,426)**	-	(354,053,000)	(354,053,000)
Balance at end of year	**P3,534,541,199**	**P433,899,697**	**P3,968,440,896**	P3,752,137,005	P377,482,931	P4,129,619,936

17. Deposit Liabilities

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

- Unification of the statutory and liquidity reserve requirements, from 11% and 10%, respectively, to 18%;
- Required reserves shall be kept in the form of deposits placed in banks' Demand Deposit Accounts (DDAs) with the BSP;
- Exclusion of cash in vault and demand deposits as eligible form of reserve requirement compliance; and
- Discontinuance of Reserve Deposit Account (RDA) facility beginning April 6, 2012.

As of December 31, 2012 and 2011, the Bank is in compliance with such reserve requirements.

Financial assets available for meeting these reserve requirements as of December 31, 2012 and 2011 are as follows:

	2012	2011
Cash and other cash items	**P451,464,100**	P948,790,348
Due from BSP	**9,201,523,891**	9,423,916,405
	P9,652,987,991	P10,372,706,753

Interest expense on deposit liabilities are as follows:

	2012	2011
Demand	**P265,225**	P328,371
Savings	**542,073,030**	508,544,575
Time	**483,578,329**	702,803,664
	P1,025,916,584	P1,211,676,610

18. Bills Payable

This account consists of borrowings from:

	Note	**2012**	2011
Bills payable:			
PDIC	*9, 21, 35*	**P698,667,860**	P648,445,283
Banks and other financial intermediaries	*32*	**249,665,895**	266,634,661
BSP	*13, 21, 35*	**-**	898,494,392
Rediscounting facility		**485,224,462**	498,507,971
		P1,433,558,217	P2,312,082,307

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 considered as a government grant as defined under PAS 20 (see Notes 21 and 35). The emergency loan is collateralized by real estate properties under a dacion en pago arrangement with the BSP (see Note 13). In June 2012, the Bank fully settled the emergency loan through cash settlement and permanent transfer of the dacioned properties to BSP recognizing a net loss of P23.7 million.

PDIC

This represents the loan granted by the PDIC to the Bank pursuant to the FAA discussed in Note 35 to the financial statements, with face value of P1.8 billion and an annual interest rate of 3.0%. The loan is collateralized by the P1.8 billion government securities acquired using the proceeds of the PDIC loan which is currently classified as AFS securities and previously from HTM investments as of December 31, 2010 and was reclassified to AFS securities in 2011 (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 21 and 35).

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 than 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 mainly consists of the rediscounting facility availed by the Bank from Development Bank of the Philippines in 2009. This is collateralized by outstanding loans extended to Eagle Cement Corporation. As of December 31, 2012 and 2011, receivables from customers used as collaterals for the rediscounting facility amounted to P483.7 million and P496.7 million, respectively.

Interest Expense
Peso-denominated bills payable are subject to annual interest rates ranging from 5.0% to 16.0% and from 5.0% to 15.7% in 2012 and 2011, respectively. Foreign currency-denominated bills payable are subject to annual interest rates ranging from 0.8% to 1.1% and from 0.3% to 0.7% in 2012 and 2011, respectively.

Interest expense on bills payable amounted to P99.1 million and P99.3 million in 2012 and 2011, respectively.

19. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Note	**2012**	2011
Accrued interest payable:			
Deposit liabilities	*17*	**P105,370,284**	P102,598,784
Bills payable	*18*	**30,017,608**	25,151,399
		135,387,892	127,750,183
Accrued insurance		**80,364,149**	72,805,037
Accrued utilities expense		**16,367,583**	9,302,746
Accrued lease liability		**81,791,287**	89,654,467
Accrued taxes payable		**29,929,684**	48,048,632
Accrued other employee and other benefits		**1,390,231**	1,178,464
Other expenses		**413,434,902**	122,276,246
		P758,665,728	P471,015,775

Other expenses include accruals for equipment related expenses, security services, janitorial, messengerial and various expenses attributable to the Bank's operations.

20. Subordinated Debts

On August 10, 2005, the Bank issued P1.2 billion unsecured subordinated 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. On December 1, 2011, the Bank exercised the call option and paid-off the note holders on the P300.0 million unsecured subordinated notes. No further issuances of such notes have been made in 2012 and 2011.

Interest expense on subordinated debts amounted to nil and P22.9 million for the years ended December 31, 2012 and 2011, respectively.

21. Other Liabilities

This account consists of:

	Note	**2012**	2011
Unearned income	*35*	**P1,079,332,140**	P1,129,554,717
Accounts payable		**459,889,410**	578,875,081
Due to preferred shareholders	*23*	**342,639,172**	320,191,145
Withholding tax payable		**42,892,489**	54,585,041
Due to Treasurer of the Philippines		**4,684,202**	4,684,202
Miscellaneous		**4,641,081,698**	163,490,914
		P6,570,519,111	P2,251,381,100

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 35 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.

Miscellaneous liabilities mainly consists of contra account of the bills purchased classified as loans granted by the Bank to its depositors.

22. Maturity Profile of Assets and Liabilities

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

		2012			2011		
	Note	**Less than 12 Months**	**Over 12 Months**	**Total**	Less than 12 Months	Over 12 Months	Total
Financial Assets - gross							
COCI	*17*	**P1,329,641**	**P -**	**P1,329,641**	P1,073,094	P -	P1,073,094
Due from BSP	*17*	**16,604,393**	**-**	**16,604,393**	9,425,250	-	9,425,250
Due from other banks		**2,788,806**	**-**	**2,788,806**	3,208,541	-	3,208,541
Interbank loans receivable and SPURA	*7*	**737,114**	**-**	**737,114**	14,032,444	-	14,032,444
Financial assets at FVPL:	*8*						
Government securities held-for-trading		**7,227**	**1,022,505**	**1,029,732**	-	433,480	433,480
Derivative assets		**-**	**72,632**	**72,632**	5,845	131,011	136,856
Private Debt Securities		**-**	**1,403**	**1,403**	-	1,502	1,502
AFS investments-gross:	*9*						
Quoted government securities		**88,642**	**14,172,294**	**14,260,936**	-	17,675,522	17,675,522
Quoted other debt securities		**-**	**1,774,048**	**1,774,048**	-	863,883	863,883
Unquoted other debt securities		**-**	**3,991,349**	**3,991,349**	-	4,107,884	4,107,884
Unquoted equity securities		**-**	**487,654**	**487,654**	-	491,809	491,809
Loans and receivables - gross:	*10*						
Receivable from customers:							
Term Loans		**1,445,423**	**20,296,251**	**21,741,674**	1,469,422	8,994,538	10,463,960
Direct Advances		**10,084,701**	**378**	**10,085,079**	13,886,251	274,820	14,161,071
Bills purchased, import bills and trust receipts		**4,886,505**	**-**	**4,886,505**	1,149,982	-	1,149,982
Agri-agra loans		**699,285**	**238,686**	**937,971**	4,164,694	679,644	4,844,338
Others		**413,686**	**1,912,777**	**2,326,463**	726,191	1,232,540	1,958,731
Sales contract receivable		**71,403**	**1,350,756**	**1,422,159**	105,653	1,619,043	1,724,696
Unquoted debt securities		**276,966**	**1,122,257**	**1,399,223**	68,269	1,399,660	1,467,929
Accrued interest receivable		**914,229**	**-**	**914,229**	933,726	-	933,726
Accounts receivable		**757,033**	**-**	**757,033**	586,346	-	586,346
RCOCI		**6,327**	**-**	**6,327**	1,055	-	1,055
		41,111,381	**46,442,990**	**86,554,371**	50,836,763	37,905,336	88,742,099
Nonfinancial Assets - gross							
Investment in an associate	*11*	**-**	**71,741**	**71,741**	-	71,741	71,741
Property and equipment	*12*	**-**	**3,765,716**	**3,765,716**	-	3,532,126	3,532,126
Investment properties	*13*	**-**	**3,083,913**	**3,083,913**	-	3,626,712	3,626,712
Non-current assets held for sale	*14*		**325,830**	**325,830**	-	468,762	468,762
Deferred tax assets - net	*31*	**-**	**-**	**-**	-	-	-
Other assets	*15*	**-**	**8,292,099**	**8,292,099**	-	8,068,162	8,068,162
		-	**15,539,299**	**15,539,299**	-	15,767,503	15,767,503
		P41,111,381	**P61,982,289**	**102,093,670**	P50,836,763	P53,672,839	104,509,602
Less:							
Allowance for impairment and credit losses	*16*			**7,661,623**			7,128,146
Accumulated equity in net loss				**11,563**			16,674
Accumulated depreciation and amortization	*12, 13, 15*			**2,130,104**			1,828,988
Unearned interest	*10*			**189,244**			242,020
Total				**P93,101,136**			P95,293,774

	2012			2011		
	Less than 12 Months	**Over 12 Months**	**Total**	Less than 12 Months	Over 12 Months	Total
Financial liabilities						
Deposit liabilities						
Demand	**P15,390,173**	**P -**	**P15,390,173**	P15,270,465	P -	P15,270,465
Savings	**31,232,895**	**-**	**31,232,895**	33,035,654	-	33,035,654
Time	**16,123,376**	**3,146,242**	**19,269,618**	20,258,339	3,243,577	23,501,916
Financial liabilities at FVPL	**-**	**47,535**	**47,535**	-	224,352	224,352
Bills payable	**26**	**1,433,532**	**1,433,558**	1,163,955	1,148,127	2,312,082
Manager's checks and acceptances payable	**371,966**	**-**	**371,966**	353,906		353,906
Accrued interest and other expenses	**425,250**	**-**	**425,250**	332,134	-	332,134
Other liabilities	**5,448,294**	**-**	**5,448,294**	903,750	-	903,750
	68,991,980	**4,627,309**	**73,619,289**	71,318,203	4,616,056	75,934,259
Nonfinancial liabilities						
Accrued taxes and other expense payable	**333,415**	**-**	**333,415**	138,881	-	138,881
Other liabilities	**42,892**	**1,079,333**	**1,122,225**	-	1,741,586	1,741,586
	376,307	**1,079,333**	**1,455,640**	138,881	1,741,586	1,880,467
	P69,368,287	**P5,706,642**	**P75,074,929**	P71,457,084	P6,357,642	P77,814,726

23. Capital

As of December 31, 2012 and 2011, the Bank has 112,241,112 common shares issued and subscribed and has no outstanding preferred shares. However, the Bank has outstanding liability for the unpaid portion of the redemption price of preferred shares amounting to P342.6 million and P320.2 million as of December 31, 2012 and 2011, respectively, which is recorded as "Due to preferred shareholders" account under "Other liabilities" in Note 21 to the financial statements. As of December 31, 2012 and 2011, the related sinking fund which is recorded as "Miscellaneous assets" account amounting to P342.6 million and P320.2 million, respectively, has been set up to fund the eventual settlement of this liability (see Note 15).

On April 8, 2010, the SEC has approved the Bank's application for increase in authorized capital stock from P6.0 billion divided into 52.5 million common shares; 7.5 million preferred shares both with the par value of P100 each, to P22.0 billion divided into P212.5 million common shares; 7.5 million preferred shares both with the par value of P100 each. The related amendment to the Articles of Incorporation of the Bank relative to its proposed increase in authorized capital stock from P6.0 billion to P22.0 billion, was approved by the BSP and the SEC on March 26, 2010 and April 8, 2010, respectively.

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

- the sale of fully paid shares of Valiant Ventures & Development Holdings, Inc. (Valiant) in the Bank to San Miguel Properties, Inc. (SMPI) and San Miguel Corporation Retirement Plan (SMCRP) amounting to 2,800,000 shares and 1,972,735 shares, respectively; and
- the assignment of subscription rights of Valiant to SMPI amounting to 523,726 shares (Tranche 1) and 4,713,539 shares (Tranche 2).

In this connection, the Bank secured the approval of the MB of the BSP for such sale of shares and assignment of subscription of the shares of Valiant. This is mandated in the BSP's 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.

On March 30, 2011, the MB of the BSP approved the sale of shares of Valiant.

In 2011, the Bank's subscribed common stock totaling 59,741,113 shares have been fully paid in accordance with the subscription agreement.

Capital Management

The Bank's capital base, comprised of capital stock, paid-in surplus, surplus reserves, revaluation increment on property and unsecured subordinated debt, is actively being managed to cover risks inherent in the Bank's operations. In 2009, SMPI and SMCRP infused additional capital amounting to P3.3 billion in the form of paid-up common stock. On February 18, 2010 and March 1, 2010, major stockholders infused P271.9 million and P2.1 billion, respectively, into the Bank in the form of advances for future stock subscriptions, which shall be treated as part of the Bank's paid-up capital upon the SEC's approval thereon and on the increase in the Bank's authorized capital stock.

The Bank has complied in full with regulatory capital requirements as of December 31, 2012 and 2011, based on the CAR reports submitted to the BSP which provided that the reported adjusted qualifying capital of P15.7 billion and P15.6 billion, respectively, exceeded the required minimum regulatory capital of P2.4 billion as determined by the Bank. As of December 31, 2012 and 2011, based on the CAR reports submitted to BSP, the Bank's CAR of 22.3% and 23.1%, respectively, exceeded the minimum 10.0% requirement as computed and monitored using the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") 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 RAP 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%.

	2012	2011
Tier 1 capital	**P15,560**	P15,645
Tier 2 capital	**125**	-
Total qualifying capital	**15,685**	P15,645
Risk weighted assets	**P70,272**	P67,683
CAR	**22.32%**	23.12%

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 is based on the accounting treatment approved by BSP (see Notes 10, 15 and 35). For item c, the accounting treatment is based on the provisions of the SPV law.

On January 15, 2013, the BSP issued Circular 781 which contains the revised risk-based capital adequacy framework for the Philippine Banking system in accordance with the Basel III standards. This circular will take effect on January 1, 2014. The following are the revised minimum capital requirements for UBs and KBs and their subsidiary banks and quasi-banks (QBs):

- 6.0% Common Equity Tier 1 (CET1)/Risk-Weighted Assets (RWAs)
- 7.5% Tier 1 Capital/RWAs, and
- 10.0% Total Qualifying Capital (Tier1 plus Tier2)/RWAs

The Qualifying Capital must consist of the sum of the following elements, net of required deductions: Tier 1-'going concern' [Common Equity Tier 1 (CET1) plus Additional Tier 1(ATI)] and Tier 2-'gone concern'. A bank/quasi-bank must ensure that any component of capital included in qualifying capital complies with all the eligibility criteria for the particular category of capital in which it is included. The Circular further describes the elements/criteria that a domestic bank should meet for each capital category. Regulatory adjustments and calculation guidelines for each capital category are also discussed.

In conformity with the Basel III standards, a Capital Conservation Buffer (CCB) of 2.5% of RWAs, comprised of CET1 capital, has been required of U/KBs and their subsidiary banks and quasi-banks. This buffer is meant to promote the conservation of capital and build up of adequate cushion that can be drawn down by banks to absorb losses during financial and economic stress. The restrictions on distribution that a bank must meet at various levels of CET1 capital ratios are established, as shown in below table. Restrictions will be imposed if a bank has no positive earnings, has CET1 of not more than 8.5% (CET Ratio of 6% plus conservation buffer of 2.5%) and has not complied with the minimum 10% CAR.

Level of CET 1 capital	Restriction on Distributions
<6.0	No distribution
6.0%-7.25%	No distribution until more than 7.25% CET1 capital is met
>7.25%-8.5%	50% of earnings may be distributed
>8.5%	No restriction on the distribution

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

	2012	2011 (As Restated - see Note 38)
Return on average equity (ROE)	**1.5%**	1.1%
Return on average assets (ROA)	**0.3%**	0.1%
Net interest margin on average earning assets	**3.0%**	3.7%

As discussed in Notes 10, 15, 16 and 35 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.

24. Surplus Reserves

	2012	2011
Reserve for trust business	**P71,741,182**	P68,310,356
Reserve for self-insurance	**60,000,000**	60,000,000
	P131,741,182	P128,310,356

In compliance with existing BSP regulations, 10.0% of the Bank's profit from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust business equals 20.0% of the Bank's authorized capital stock.

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

25. Interest Income on Trading and Investment Securities

This account consists of:

	Note	2012	2011 (As Restated - see Note 38)
Financial assets at FVPL:			
Government securities held for trading		**P76,165,371**	P65,809,472
Quoted other debt securities		**351,970**	84,505
Others		**-**	-
AFS securities:			
Quoted government securities		**812,780,704**	655,637,092
Quoted other debt securities		**75,994,764**	61,642,983
Unquoted other debt securities	*9, 37*	**193,411,098**	225,537,458
HTM investments:			
Quoted government securities		**-**	426,609,407
		P1,158,703,907	P1,435,320,917

Foreign currency-denominated financial assets at FVPL bear EIRs ranging from 0.7% to 5.4% and from 1.3% to 6.4% in 2012 and 2011, respectively. Peso-denominated financial assets at FVPL bear EIRs ranging from 0.4% to 6.9% and from 0.7% to 8.5% for the years ended December 31, 2012 and 2011, respectively.

Foreign currency-denominated AFS debt securities bear EIRs ranging from 0.1% to 8.4% and from 0.1% to 8.2% in 2012 and 2011, respectively. Peso-denominated AFS debt securities bear EIRs ranging from 3.5% to 14.5% and from 2.7% to 14.5% in 2012 and 2011, respectively.

Foreign currency-denominated HTM investments bear EIRs ranging from 5.0% to 7.0% in 2011. Peso-denominated HTM investments bear EIRs ranging from 7.2% to 14.5% in 2011.

26. Service Charges, Fees and Commissions

This account consists of:

	2012	2011
Service charges	**P138,780,408**	P146,438,943
Penalty charges	**77,259,381**	34,277,512
Trust income	**60,380,972**	33,655,368
Letters of credit fees	**6,836,090**	8,665,349
Acceptance fees	**1,289,644**	1,063,754
Others	**27,236,234**	19,091,895
	P311,782,729	P243,192,821

27. Trading and Investment Securities Gains (Losses)

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

	Note	**2012**	2011
Financial assets and liabilities at FVPL:	8		
Debt securities			
Realized		**(P3,387,980)**	P27,978,236
Unrealized		**(5,151,980)**	2,301,531
Derivatives			
Unrealized	37	**86,351,040**	(235,501,165)
AFS securities	9	**1,246,506,185**	1,128,528,652
HTM investments	9	**-**	83,872,098
		P1,324,317,265	P1,007,179,352

28. 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 December 19, 2012. 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 of December 31, 2012 and 2011, the principal actuarial assumptions used in determining retirement benefits liability for the Bank's retirement plan are shown below:

	2012	2011
Average working life	**13.0**	13.0
Discount rate	**4.9%**	7.2%
Expected rate of return on assets	**4.0%**	5.0%
Future salary increases	**6.6%**	7.5%

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

	2012	2011
Current service cost	**P57,532,652**	P42,207,606
Interest cost	**30,751,671**	28,849,743
Expected return on plan assets	**(17,457,096)**	(25,476,305)
Net actuarial gain recognized in year	**5,909,116**	-
	P76,736,343	P45,581,044

The net retirement benefits asset (included under "Other assets" account) recognized in the statements of financial position is as follows (see Note 15):

	2012	2011
Present value of defined benefits obligation	**P529,759,889**	P427,106,548
Fair value of plan assets	**(405,564,356)**	(349,141,911)
Present value of unfunded obligation	**124,195,533**	77,964,637
Unrecognized actuarial losses	**(193,399,580)**	(119,529,168)
Net retirement benefits asset	**(P69,204,047)**	(P41,564,531)

The movements of the retirement benefits asset recognized in the statements of financial position follow:

	2012	2011
Balance at beginning of year	**(P41,564,531)**	(P2,263,568)
Retirement benefits expense	**76,736,343**	45,581,044
Contribution paid	**(104,375,859)**	(84,882,007)
Balance at end of year	**(P69,204,047)**	(P41,564,531)

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

	2012	2011
Balance at beginning of year	**P427,106,548**	P335,462,126
Current service cost	**57,532,652**	42,207,606
Interest cost	**30,751,671**	28,849,743
Benefits paid	**(66,602,924)**	(49,410,534)
Actuarial loss on obligation	**80,971,942**	69,997,607
Balance at end of year	**P529,759,889**	P427,106,548

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

	2012	2011
Balance at beginning of year	**P349,141,911**	P363,947,210
Expected return on plan assets	**17,457,096**	25,476,305
Contribution paid by the Bank	**104,375,859**	84,882,007
Benefits paid	**(66,602,924)**	(49,410,534)
Actuarial gain (loss) on plan assets	**1,192,414**	(75,753,077)
Balance at end of year	**P405,564,356**	P349,141,911

The actual return on plan assets amounted to P18.6 million and P36.1 million in 2012 and 2011, respectively.

The Bank expects to contribute P116.1 million to its defined benefits retirement plan in 2013.

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

	2012	2011
Government securities	**50.9%**	76.7%
Equity instruments	**3.1%**	3.4%
Cash and other assets	**46.0%**	19.9%
	100.0%	100.0%

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

	2012	2011	2010	2009
Present value of the defined benefit obligation	**P529,759,889**	P427,106,548	P335,462,126	P341,082,584
Fair value of plan assets	**405,564,356**	349,141,911	363,947,210	309,336,057
Deficit (surplus)	**124,195,533**	77,964,637	(28,485,084)	31,746,527
Experience adjustment on plan liabilities	**(5,313,704)**	-	(89,327,676)	-
Experience adjustment on plan assets	-	-	-	-

29. 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 against current operations (included under "Rent and utilities" account in the statements of income) amounted to P225.3 million and P192.0 million in 2012 and 2011, respectively.

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

	2012	2011
Within one year	**P160.8**	P112.9
After one year but not more than five years	**317.1**	217.2
After five years	**139.3**	99.7

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, 2012 and 2011, there is no contingent rental income. Rent income of the Bank related to these property leases amounting to P13.1 million and P10.8 million in 2012 and 2011, respectively, are shown under "Miscellaneous income" account in the statements of income.

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

	2012	2011
Within one year	**P1.9**	P1.8
After one year but not more than five years	**0.1**	1.3
After five years	**-**	-

30. Miscellaneous Expenses

	Note	**2012**	2011
Entertainment, amusement and recreation	*31*	**P147,339,914**	P121,266,245
Litigation and acquired assets	*13*	**110,184,786**	87,668,931
Marketing		**73,596,876**	43,124,215
Communications		**65,098,495**	52,842,039
Messengerial services		**54,196,771**	39,500,337
Forms and supplies		**35,888,630**	30,371,904
Transportation and travel		**32,725,448**	16,149,945
Supervision and examination fee		**31,849,508**	30,700,113
Bank charges		**27,636,249**	28,673,994
Others		**364,029,190**	84,177,152
		P942,545,867	P534,474,875

31. Income and Other Taxes

Income and other taxes are comprised of RBU and FCDU income taxes which are discussed as follows:

Regular Banking Unit
Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented under "Taxes and licenses" account in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (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 (RR) No. 10-2002 provides for the ceiling on the amount of entertainment, amusement and representation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. Nondeductible EAR expenses amounted to P137.4 million in 2012 and P102.5 million in 2011. EAR expense is included under "Miscellaneous expenses" account in the statements of income (see Note 30).

In 2011, the BIR issued RR 4-2011 which requires banks to allocate and claim as deduction only those costs and expenses attributable to RBU to arrive at the taxable income of the RBU subject to regular income tax. Any cost or expense related with or incurred for the operations FCDU are not allowed as deduction from the RBU's taxable income. In computing for the amount allowable as deduction from RBU operations, all costs and expenses should be allocated between the RBU and FCDU by specific identification and by allocation.

Foreign Currency Deposit Unit
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 (benefit) expense consists of:

	2012	2011
Current:		
Final	**P257,115,290**	P219,747,803
MCIT	**22,678,769**	33,985,597
	279,794,059	253,733,400
Deferred	**(381,687,502)**	(4,101,728)
	(P101,893,443)	P249,631,672

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

	2012	2011
Income before income tax	**P156,368,888**	P403,617,469
Income tax at statutory rate	**P46,910,666**	P121,085,241
Additions to (reductions in) income taxes resulting from the tax effects of:		
Nondeductible expenses	**301,664,570**	225,911,268
FCDU income	**(239,339,489)**	(155,281,662)
Changes in unrecognized deferred tax assets	**(205,886,763)**	289,064,865
Tax paid income	**(5,357,267)**	(66,565,184)
Nontaxable income	**(3,376,842)**	(125,702,358)
Others	**3,491,682**	(38,880,498)
Effective income tax	**(P101,893,443)**	P249,631,672

The components of net deferred tax assets and deferred tax liabilities in the statements of financial position are as follows:

	2012		2011	
	Tax Base	**Deferred Tax Asset (Liability)**	Tax Base	Deferred Tax Asset (Liability)
Deferred tax asset on:				
Allowance for impairment and credit losses	**P1,810,007,904**	**P543,002,372**	P1,287,422,773	P386,226,832
Accumulated loss on foreclosure	**520,296,730**	**156,089,019**	-	-
Accumulated depreciation on investment properties	**111,878,625**	**33,563,587**	-	-
Accrued rent expense	**69,901,024**	**20,970,307**	-	-
Unrealized foreign exchange loss	**7,794,452**	**2,338,336**	140,696,690	42,209,007
Other accrued expenses	**196,185,938**	**58,855,781**	-	-
	2,716,064,673	**814,819,402**	1,428,119,463	428,435,839
Deferred tax liability on:				
Net unrealized gain on AFS securities	**(1,608,257,866)**	**(482,477,360)**	(1,656,264,757)	(496,879,427)
Unrealized gain on foreclosed properties	**(750,492,211)**	**(225,147,663)**	(720,157,964)	(216,047,389)
Gain on investment properties sold under installments	**(302,015,351)**	**(90,604,605)**	(310,851,197)	(93,255,359)
Revaluation increment on property	**(55,299,245)**	**(16,589,774)**	(48,183,520)	(14,455,056)
Valuation gain on derivatives and financial assets carried at FVPL	**-**	**-**	(5,844,867)	(1,753,460)
	(2,716,064,673)	**(814,819,402)**	(2,741,302,305)	(822,390,691)
Net deferred tax liabilities	**P -**	**P -**	(P1,313,182,842)	(P393,954,852)

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 carryforward benefits of NOLCO and MCIT:

	December 31, 2012	
	Deductible Temporary Differences	**Deferred Tax Assets**
NOLCO	**P2,513,399,389**	**P754,019,817**
Allowance for impairment and credit losses	**2,126,469,390**	**637,940,817**
MCIT	**97,743,681**	**97,743,681**
Unrealized loss on financial assets at FVPL	**2,690,250**	**807,075**
Others	**40,985,491**	**12,295,647**
	P4,781,288,201	**P1,502,807,037**

	December 31, 2011	
	Deductible Temporary Differences	Deferred Tax Assets
NOLCO	P2,505,130,731	P751,539,219
Allowance for impairment and credit losses	2,472,081,528	741,624,458
Accumulated loss on foreclosure	539,438,048	161,831,414
Other accrued expenses	156,693,765	47,008,130
MCIT	99,123,412	99,123,412
Accumulated depreciation on investment properties	92,105,328	27,631,598
Accrued rent expense	84,599,852	25,379,956
Accumulated depreciation on appraisal increment	29,570,965	8,871,290
Unrealized loss on financial assets at FVPL	1,631,542	489,463
Others	52,991,871	15,897,561
	P6,033,367,042	P1,879,396,501

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

NOLCO

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2007	P413,175,698	(P413,175,698)	P -	2012*
2011	2,091,955,040	-	2,091,955,040	2014
2012	421,444,349	-	421,444,349	2015
	P2,926,575,087	(P413,175,698)	P2,513,399,389	

* *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
2009	P24,058,500	(P24,058,500)	P -	2012
2010	41,079,315	-	41,079,315	2013
2011	33,985,597	-	33,985,597	2014
2012	22,678,769	-	22,678,769	2015
	P121,802,181	(P24,058,500)	P97,743,681	

32. 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, 2012 and 2011:

	Note	**2012**	2011
Contingent assets:			
Future/spot exchange bought		**P1,183,471,500**	P2,192,000,000
Fixed income securities purchased		**360,334,275**	5,894,455
Outward bills for collection		**239,141,783**	255,803,564
		P1,782,947,558	P2,453,698,019
Commitments and contingent liabilities:			
Trust department accounts	*33*	**P34,167,130,820**	P31,298,903,555
Future/spot exchange sold		**1,552,932,640**	3,200,320,000
Unused commercial letters of credit		**225,014,430**	344,694,457
Late deposits/payments received		**166,340,721**	73,250,847
Outstanding guarantees		**21,202,826**	20,903,915
Items held for safekeeping/securities held as collateral		**3,529,855**	36,089
Fixed income securities sold		**-**	6,354,239
		P36,136,151,292	P34,944,463,102

The Bank has several loan-related suits and claims that remain unsettled. It is not practicable to estimate the potential financial impact of these contingencies. However, in the opinion of management, in consultation with its legal 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 (in thousands):

	Carrying Amount		Fair Value		Related Liability	
	2012	2011	**2012**	2011	**2012**	2011
AFS securities	**P3,459,842**	P3,360,117	**P3,459,842**	P3,360,117	**P801,293**	P758,045
Loans and receivables	**232,165**	206,914	**6,743**	2,209	**147,041**	157,035
	P3,692,007	P3,567,031	**P3,466,585**	P3,362,326	**P948,334**	P915,080

The assets pledged by the Bank are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or re-pledge the assets, they are classified in the statements of financial position as pledged collateral. The pledged assets will be returned to the Bank when the underlying transaction is terminated but, in the event of the Bank's default, the counterparty is entitled to apply the collateral in order to settle the liability.

33. Trust Assets

Securities and other properties (other than deposits) held by the Bank in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Bank (see Note 32). Total assets held by the Bank's Trust Services Group amounted to P34.2 billion and P31.3 billion as of December 31, 2012 and 2011, respectively.

In compliance with the requirements of current banking regulations relative to the Bank's trust functions, government securities with a face value of P405.6 million and P217.7 million are deposited with BSP in 2012 and 2011, respectively.

34. 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:

	2012	2011
Total outstanding DOSRI loans	**P1,107,003,592**	P1,107,804,882
Percent of DOSRI loans to total loans	**2.8%**	3.4%
Percent of unsecured DOSRI loans to total DOSRI loans	**Nil**	Nil
Percent of past due DOSRI loans to total DOSRI loans	**Nil**	Nil
Percent of nonperforming DOSRI loans to total DOSRI loans	**Nil**	Nil

The year-end balances of deposits and interest expense (see Note 17) in respect of related parties included in the Bank's financial statements are as follows:

	2012	2011
Deposit liabilities	**P7,586,550,635**	P5,391,648,864
Interest expense	**80,941,233**	81,048,910

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 five (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.

In 2011, the Bank acquired additional two (2) floors, 7^{th} and 8^{th} floors at SMPC. Total purchase price amounted to P136.0 million (see Note 12).

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. Recognized expense relating to these contracts amounted to nil and P15.1 million in 2012 and 2011, respectively.

			As of December 31, 2012		
Related Party	Relationship	Nature of Transaction	**Availments**	**Settlements**	**Balance at Reporting Date (see Note 10)**
Ginebra San Miguel, Inc.	Under common control	Loans and receivable	**P20,981,000,000**	**P19,200,000,000**	**P2,600,000,000**
		Accrued interest receivable	**67,779,434**	**57,737,184**	**13,716,625**
Manila North Harbour Port, Inc	Under common control	Loans and receivable	**1,503,451,545**	**743,058,335**	**846,317,647**
		Accrued interest receivable	**20,322,790**	**5,057,082**	**5,178,651**
MTD Manila Expressway Corporation	Under common control	Loans and receivable	**1,750,000,000**	**-**	**1,750,000,000**
		Accrued interest receivable	**337,434,733**	**-**	**45,081,138**
Philippine Airlines	Under common control	Loans and receivable	**4,104,333,333**	**-**	**4,105,000,000**
		Accrued interest receivable	**38,819,970**	**-**	**23,314,997**
San Miguel Brewery, Inc.	Under common control	Loans and receivable	**1,258,065,000**	**-**	**1,231,500,000**
		Accrued interest receivable	**33,569,672**	**-**	**1,013,353**

Forward

Related Party	Relationship	Nature of Transaction	As of December 31, 2012 Availments	 Settlements	 Balance at Reporting Date (see Note 10)
San Miguel Yamamura Packaging Corporation	Under common control	Loans and receivable	**P3,500,000,000**	**P -**	**P3,500,000,000**
		Accrued interest receivable	**71,216,056**	**-**	**37,868,056**
SMC Shipping and Lighterage Corporation	Under common control	Loans and receivable	**13,087,107,500**	**12,669,305,000**	**958,300,881**
		Accrued interest receivable	**61,154,851**	**59,956,596**	**2,330,721**
South Luzon Tollway Corporation	Under common control	Loans and receivable	**2,000,000,000**	**-**	**1,900,000,000**
		Accrued interest receivable	**137,852,383**	**-**	**20,720,028**
TransAire Development Holdings Corporation	Under common control	Loans and receivable	**755,048,000**	**-**	**755,048,000**
		Accrued interest receivable	**24,000,512**	**-**	**13,167,496**
Wi-tribe Telecoms, Inc.	Under common control	Loans and receivable	**3,300,000,000**	**2,200,000,000**	**1,100,000,000**
		Accrued interest receivable	**66,318,636**	**21,927,525**	**2,346,667**
		Loans and receivable			**P18,746,166,528**
		Accrued interest receivable			**P164,737,732**

Related Party	Relationship	Nature of Transaction	As of December 31, 2011 Availments	 Settlements	 Balance at reporting date
Ginebra San Miguel, Inc.	Under common control	Loans and receivable	P4,494,000,000	P3,194,000,000	P1,300,000,000
		Accrued interest receivable	15,222,000	9,731,000	4,687,222
Manila North Harbour Port, Inc	Under common control	Loans and receivable	84,000,000	-	84,000,000
		Accrued interest receivable	341,000	-	222,000
SMC Shipping and Lighterage Corporation	Under common control	Loans and receivable	3,784,000,000	1,927,900,000	1,856,100,000
		Accrued interest receivable	12,397,210	4,514,978	12,546,067
Wi-tribe Telecoms, Inc.	Under common control	Loans and receivable	1,100,000,000	-	1,100,000,000
		Accrued interest receivable	9,738,467	-	6,317,465
		Loans and receivable			P4,340,100,000
		Accrued interest receivable			P23,772,754

As of December 31, 2012 and 2011, the Bank's outstanding loans to related parties are not impaired.

The significant interest income in respect of loans to related parties included in the statements follows:

Related Party	Relationship	2012	2011
MTD Manila Expressway Corp.	Under common control	**P121,356,953**	P -
South Luzon Tollway Corporation	Under common control	**76,831,173**	-
Ginebra San Miguel, Inc.	Under common control	**59,486,967**	13,156,493
Wi-tribe Telecoms, Inc.	Under common control	**51,028,078**	50,962,461
SMC Shipping and Lighterage Corporation	Under common control	**50,599,574**	16,412,647
San Miguel Yamamura Packaging Corporation	Under common control	**36,985,890**	-
San Miguel Brewery, Inc.	Under common control	**28,403,296**	-
Philippine Airlines	Under common control	**22,663,643**	-
Manila North Harbour Port, Inc.	Under common control	**22,422,872**	367,233
TransAire Development Holdings Corporation	Under common control	**12,847,460**	-
		P482,625,906	P80,898,834

Affiliates are other companies owned and controlled by San Miguel Corporation, the bank’s ultimate parent company.

Compensation of Key Management Personnel of the Bank

The remuneration of directors and other members of key management included in the “Compensation and fringe benefits” account in the statements of income for December 31, 2012 and 2011 follow:

	2012	2011
Short-term employee benefits	**P323,000,326**	P301,615,734
Post-employment benefits	**42,064,424**	18,914,885
	P365,064,750	P320,530,619

As of December 31, 2012 and 2011, the Bank’s contribution to its defined benefits retirement plan managed and administered by the Bank’s Trust Services Group amounted to P104.4 million and P84.9 million, respectively (see Note 28). Benefits paid out of the Bank’s plan assets amounted to P66.6 million and P49.4 million in 2012 and 2011, respectively (see Note 28).

35. Acquisition of Selected Assets and Assumption of Certain Liabilities of TRB

A summary of the significant transactions related to the PSA entered into by the Bank with TRB on November 9, 2001 follows:

a. TRB sold and transferred, in favor of the Bank, identified recorded assets owned by TRB both real and personal, or in which TRB has title or interest, and which are included and deemed part of the assets listed and referred to in TRB’s Consolidated Statement of Condition (CSOC) as of August 31, 2001. The said assets are inclusive of the banking goodwill of TRB, bank premises, licenses to operate its head office and branches, leasehold rights and patents used in connection with its business or products. In consideration of the sale of identified recorded assets, the Bank assumed identified recorded TRB liabilities including contingent liabilities as listed and referred to in its CSOC as 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 include a P2.4 billion emergency advances from the BSP. As settlement for the emergency advances, a dacion en pago with mandatory buy-back agreement involving certain bank premises and ROPA (with a dacion price equivalent to 80.0% of the average appraised value of the dacion properties) was executed. The dacion en pago with mandatory buy-back agreement contained the following significant terms and conditions:

a. The Bank may repurchase the bank premises and ROPA within 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.

   As discussed in Note 18 to the financial statement, the Bank fully settled its emergency loan with the BSP in June 2012 through cash settlement and permanent transfer of dacioned properties.

FAA

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

a. The PDIC granted the Bank a loan amounting to P1.8 billion (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 a 20-year government securities (GS) with a coupon rate of 15.0% per annum (included under HTM investments in 2010 and under AFS securities in 2011) to be pledged as collateral for the loan (see Note 18). 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 additional capital in the event a shortfall in order to comply with BSP's pertinent regulations on minimum capital requirement.

c. The Bank agrees to comply with certain regulatory requirements, to provide information as required by the PDIC, to pursue realization of performance targets based on the financial plan, to secure PDIC's written consent for the appointment of an external auditor, and to entitle PDIC to appoint a consultant.

d. The Bank shall not, among others, without the prior written consent of PDIC, grant new DOSRI loans, make any single major or significant total capital expenditures within five years as defined in the FAA, establish new banking offices or branches, dispose all or substantial portion of its assets except in the ordinary course of business, declare or pay cash dividends, effect any profit sharing or distribution of bonuses to directors and officers of the Bank not in accordance with the financial plan and other transactions or activities not in accordance with the financial plan.

On September 22, 2009, the Bank and PDIC signed a Supplemental Agreement to the 2002 FAA with the following additional terms:

- To the extent and in the context relevant to the terms of the FAA, PDIC hereby agrees to a limited adjustment of TRB's unbooked valuation reserves/deferred charges/accumulated operating losses, so as to include operating losses accumulated from the period October 2001 to July 2002 in the amount of P596.0 million which shall bring TRB's total unbooked valuation reserves, deferred charges and accumulated operating losses to P4.5 billion;

- Extension of the FAA for such limited period as shall exactly be sufficient to fully set off on staggered basis the MA-TRB against the net yield of the new series 20-year GS to be purchased to replace the maturing GS in March 2022 and likewise to be pledged to PDIC; and

- Income resulting from the difference between the dacion price and book value of the assets as collateral to BSP, if any, as well as future collections derived by the Bank from NPLs covered by the unbooked valuation reserves shall be deducted from the above amount of P4.5 billion. Such set-off shall be formally and officially reported by BSP to PDIC.

The foregoing Supplemental Agreement did not constitute a significant modification of the terms of the PDIC's below-market loan to the Bank. Had the modification been significant, it would have resulted to the derecognition of the old liability and the recognition of the new liability at its fair value.

In addition, as part of the PSA, there were transactions allowed and approved by the BSP, which required different treatment under 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 (see Note 15). 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 P159.1 million and P159.3 million in 2012 and 2011 from the FAA. In accordance with the PSA entered by the Bank and TRB, an amount equivalent to the net interest income of P159.1 million and P159.3 million in 2012 and 2011 was recognized in profit or loss to increase the allowance for impairment losses on the "Miscellaneous assets" (see Note 15).

36. Notes to Statements of Cash Flows

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

	2012	2011
Noncash operating activities:		
Restricted interbank loans receivables	**P -**	P11,700,000,000
Noncash investing activities:		
Additions to investment properties in settlement of loans	**272,963,975**	163,788,740
Increase in sales contract receivable from sale of investment properties	**145,925,795**	145,826,019

37. Structured Notes

Structured notes pertain to the host contracts of debt securities issued by foreign counterparty banks, included under "AFS securities" account (see Note 9) and "Loans and receivables-net" account (see Note 10) and derivative contracts of debt securities issued by foreign counterparty banks, included under "Financial assets and liabilities at FVPL" account (see Note 8), which contain features such as leveraged interest, prepayments options and credit linkage. These notes have various maturities with the farthest note maturing in 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 most of which are Republic of the Philippines (ROP) bonds. Thus, when a credit event happens, these notes are terminated and the Bank either obtains the underlying reference asset or receives cash settlement equal to the fair value of underlying asset at the time of settlement adjusted for unwinding costs. The Bank, therefore, may lose all or substantially all of the principal invested.

PFRS requires that assets received shall be measured at fair values at date of exchange. Further, PFRS provides that costs such as breakage costs which do not qualify as transaction costs be expensed as incurred (see Notes 9 and 38).

In 2011, the Bank liquidated several structured notes with original investment amount of $60.0 million. The related gains or loss on termination of these financial instruments are included in "Trading and investment securities gains - net" account in the statements of income.

38. Restatements

In 2012, the Bank restated the accompanying 2011 audited financial statements to reflect the following items:

a. Resolve the report qualification pertaining to the deficiency in the allowance for impairment and credit losses by P309.0 million, as reported by the Bank's external auditors in their audit report dated March 27, 2012 (see Notes 10 and 16);

b. Reflect in the financial statements, the material information that came to the attention of the management pertaining to the accounting for the Bank's structured investments. Consequently, the book values of the Bank's structured investments have been decreased by P246.8 million and P315.2 million as of December 31 and January 1, 2011, respectively, with corresponding impact on the Bank's profit or loss for the years ending December 31, 2011 and 2010, respectively, brought about by the reversal of certain costs that did not qualify to be capitalized in accordance with the requirements of PFRS; and (see Notes 9 and 37); and

c. Charge the amortization of deferred loss on sale to SPV against profit or loss to comply with the requirements of RAP. Prior to the restatement, the amortization of the said deferred charges is being charged against "Deficit, beginning"(see Notes 15 and 35).

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:

	Loans and Receivables - net	Deficit	Net Unrealized Gain (Loss) on Available-for-Sale Securities
December 31, 2011 balances, as previously reported	**P33,229,193,252**	**(P3,146,872,405)**	**P718,848,625**
Prior period adjustment A	(309,000,000)	(309,000,000)	-
Prior period adjustment B	-	(246,815,528)	246,815,528
December 31, 2011 balances, as restated	**P32,920,193,252**	**(P3,702,687,933)**	**P965,664,153**

	Deficit	Net Unrealized Gain (Loss) on Available-for-Sale Securities
January 1, 2011 balances, as previously reported	**(P3,620,929,490)**	**(P474,295,990)**
Prior period adjustment B	(315,156,681)	315,156,681
January 1, 2011 balances, as restated	**(P3,936,086,171)**	**(P159,139,309)**

	Interest Income on Trading and Investment Securities	Impairment Losses	Net Income
For the year ended December 31, 2011 balance, as previously reported	**P1,366,979,764**	**P1,036,896,963**	**P579,906,690**
Prior period adjustment A	-	309,000,000	(309,000,000)
Prior period adjustment B	68,341,153	-	68,341,153
Prior period adjustment C (see Note 15)	-	185,262,046	(185,262,046)
December 31, 2011 balance, as restated	**P1,435,320,917**	**P1,531,159,009**	**P153,985,797**

39. Events After the Reporting Date

On January 16, 2013, the Bank was granted approval by the Philippine SEC to extend its corporate life by another 50 years.

40. Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010 and RR No. 19-2011 of the Bureau of Internal Revenue

I. Based on RR No. 19-2011

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the BIR issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2012, the Bank reported the following revenues and expenses for income tax purposes (in absolute amounts):

A. Sales/Receipt/Fees

	Regular/ Normal Rate
Interest income	**P2,176,236,295**

B. Cost of Services

	Regular/ Normal Rate
Interest expense	**P627,457,620**
Salaries, wages and benefits	**493,826,988**
Rental	**183,712,093**
Depreciation	**170,644,206**
Utilities	**136,791,213**
Repairs and maintenance	**95,076,980**
Communications	**79,684,923**
Materials, supplies and facilities	**23,733,572**
Outside services	**8,063,161**
Others	**189,408,377**
	P2,008,399,133

C. Other Income

	Regular/ Normal Rate
Net trading gains on securities	**P520,552,748**
Service charges, fees and commissions	**297,667,979**
Net foreign exchange gain or loss	**(119,567,515)**
Real estate income	**79,135,421**
Rental income	**13,455,639**
Others	**174,857,023**
	P966,101,295

D. Itemized Deductions

	Regular/ Normal Rate
Salaries, wages and benefits	**P570,191,856**
Taxes and licenses	**330,142,065**
Real estate expense	**109,875,777**
Depreciation	**106,649,241**
Repairs and maintenance	**88,742,194**
Management and other professional fee	**66,785,978**
Travel and business expenses-non customer	**38,773,347**
Commissions and bank charges	**34,394,579**
Amortization of deferred charges	**34,121,124**
Utilities	**23,746,060**
Rent - bank premises	**23,381,963**
Communications	**20,430,366**
Marketing	**15,197,253**
Insurance expenses	**9,495,784**
Forms and supplies	**5,695,129**
Service bureau expense	**2,158,602**
Meetings and conferences	**2,757,348**
Supervision and examination fee	**1,176,602**
Other expenses	**71,667,541**
	P1,555,382,807

II. Based on RR No. 15-2010

The Bank reported and/or paid the following types of taxes for the year:

A. Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Taxes and Licenses' account in the Bank's statement of income.

Details consist of the following:

	December 31 2012
Gross receipts tax	**P183,963,106**
Documentary stamp tax	**107,447,985**
License and permit fees	**17,228,326**
Real estate taxes	**6,908,493**
Others	**22,382,590**
	P337,930,500

B. Withholding Taxes

Details of withholding taxes for the year are as follows:

Tax on compensation and benefits	**P189,322,680**
Final withholding taxes	**132,719,182**
Expanded withholding taxes	**43,905,362**
	P365,947,224

C. Deficiency Tax Assessments

Period Covered	Amount*
2003	**P3,095,735**

**Amount of deficiency tax assessments, whether protested or not.*

As the deficiency tax assessment above is without legal basis, the Bank has filed abatement on January 27, 2006 for the closure of the case. The closure of the case is currently ongoing.

D. Tax Cases

As of December 31, 2012, the Bank has the following tax cases:

Supreme Court Level:

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

Branch and **ATM** Directory

Metro Manila

Makati City	11	Branches	15	ATMs
Taguig	1	Branch	5	ATMs
Manila	12	Branches	30	ATMs
Caloocan	2	Branches	6	ATMs
Malabon	2	Branches	3	ATMs
Valenzuela	1	Branch	3	ATMs
Quezon City	15	Branches	53	ATMs
San Juan	1	Branch	2	ATMs
Marikina City	3	Branches	6	ATMs
Rizal	1	Branch	11	ATMs
Pasig	1	Branch	9	ATMs
Mandaluyong City	2	Branches	13	ATMs
Pasay City	3	Branches	9	ATMs
Paranaque City	3	Branches	9	ATMs
Muntinlupa City	1	Branch	6	ATMs
Las Pinas City	1	Branch	7	ATMs

Luzon

Laguna	3	Branches	14	ATMs
Cavite	2	Branches	14	ATMs
Batangas	4	Branches	10	ATMs
Mindoro	1	Branch	1	ATM
Lucena	1	Branch	2	ATMs
Legazpi	1	Branch	2	ATMs
Naga	1	Branch	1	ATM
Palawan	1	Branch	1	ATM
Pampanga	3	Branches	20	ATMs
Zambales	3	Branches	4	ATMs
Pangasinan	3	Branches	11	ATMs
Tarlac	1	Branch	1	ATM
Bataan	1	Branch	3	ATMs
Nueva Ecija	1	Branch	1	ATM
La Union	1	Branch	2	ATMs
Baguio	1	Branch	3	ATMs
Ilocos	3	Branches	5	ATMs
Cagayan	1	Branch	2	ATMs
Bulacan	2	Branches	8	ATMs

Visayas

Roxas City	1	Branch	1	ATM
Aklan	1	Branch	4	ATMs
Iloilo	3	Branches	4	ATMs
Negros Oriental	1	Branch	2	ATMs
Bacolod	3	Branches	9	ATMs
Tagbilaran	1	Branch	2	ATMs
Leyte	1	Branch	1	ATM
Cebu	7	Branches	20	ATMs

Mindanao

Agusan Del Norte	1	Branch	4	ATMs
Cagayan De Oro	2	Branches	4	ATMs
Bukidnon	1	Branch	3	ATMs
Gen. Santos	1	Branch	3	ATMs
Davao City	3	Branches	9	ATMs
Zamboanga City	2	Branches	4	ATMs

METRO MANILA

MAKATI AREA

AYALA
G/F IAcademy Bldg. 6764 Ayala Ave., Makati City
(632) 891-3814 / (632) 811-6648
(632) 891-3807 / (632) 812-4641
(632) 810-0651 (fax)

BUENDIA-PASONG TAMO
250 Sen. Gil Puyat Ave. cor. Pasong Tamo St., Legaspi Village, Makati City
(632) 893-9866 / (632) 893-6787
(632) 893-9840 (telefax)

LEGASPI-MAKATI
G/F Bloomingdale Bldg. 205 Salcedo St., Legaspi Village, Makati City
(632) 893-8100 / (632) 893-7899
(632) 893-8199 (telefax)

PASAY ROAD
Cedar Executive Bldg., 1006 A. Arnaiz Ave., (Pasay Road) San Lorenzo Village, Makati City
(632) 840-5612 / (632) 840-5640
(632) 840-5660 / (632) 840-5642 (telefax)

PASEO DE ROXAS
G/F Legaspi Towers 200, #107 Paseo de Roxas, Legaspi Village, Makati City
(632) 818-0273 / (632) 817-0660
(632) 817-0659 / (632) 817-7572
(632) 815-4279 (telefax)

PASONG TAMO EXT.
Jannov Plaza Bldg. I, 2295 Pasong Tamo Ext., 1231 Makati City
(632) 817-9300 / (632) 892-9700
(632) 893-1170 / (632) 892-8199 (fax)

BEL-AIR PETRON
Bel-Air Petron Square
363 Sen. Gil Puyat Ave.,
Barangay Bel-Air, Makati City
(632) 898-2309 / (632) 896-7085
(632) 998-0334 (fax)

DELA COSTA-ALFARO
G/F Don Chua Lamko Building, H.V. Dela Costa cor. Leviste St., Salcedo Village, Makati City
(632) 840-2789 / (632) 813-3479
(632) 840-2719 / (632) 813-5707 (fax)

BONIFACIO GLOBAL CITY
G/F, Kensington Place Burgos Circle, Fort Bonifacio, Taguig City
(632) 856-1707 / (632) 856-1696 (telefax)
(632) 856-1706 / (632) 856-1697

ROCKWELL
P1 ConcourseLevel, The Power Plant Mall, Rockwell Center, Makati City
(632) 898-1523 / (632) 898-1522
(632) 898-1524 (fax)

SALCEDO
Ground flr., Aguirre Building, Tordesillas cor. H.V. dela Costa Sts., Salcedo Village, Makati City
(632) 813-2220 / (632) 813-2364
(632) 813-2734 / (632) 813-7247 (fax)

MANILA SOUTH AREA

ALABANG
Unit 6, El Molito II Building, Madrigal Ave., Alabang, Muntinlupa City
(632) 850-8718 / (632) 850-1874
(632) 850-1574 / (632) 850-4935 (fax)

BICUTAN
35 Dona Soledad Ave.
Better Living Subd., Paranaque City
(632) 776-4146 / (632) 823-2321
(632) 823-2324 / (632) 821-0521 (fax)

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

NAIA
Naia Arrival Area Terminal 1, Pasay City
(632) 877-1109 loc.3782 / (632) 853-0712
(632) 833-0713 (telefax)

MAGALLANES
Ground floor, Tritan Plaza Bldg., Paseo de Magallanes, Makati City
(632) 854-9611 (telefax)

B.F. HOMES
33 President's Ave., Brgy. BF Homes, Paranaque City
(632) 506-5985 / (632) 577-9232
(632) 998-0334

SUCAT
Fortuna II Bldg., 8338 Dr. A. Santos Ave., Sucat, Paranaque City
(632) 820-7747 / (632) 826-4841
(632) 826-8415 / (632) 826-8387 (fax)

SAN PEDRO
Pacita Commercial Complex,
San Pedro, Laguna
(632) 808-2026 / (632) 808-3909 (fax)
(632) 808-2002 / (632) 808-1901
(632) 808-1902

DASMARIÑAS, CAVITE
Veluz –Frances Plaza Building,
Aguinaldo Zone 1-A Highway,
Dasmarinas Cavite
Manila line: (632) 529-8129 (telefax)
Cavite lines: (046) 416-2335 (telefax) / (046) 416-5997

ROSARIO
General Trias Drive, Baranggay Poblacion Rosario, Cavite
(046) 402-2062 / (046) 438-8452 (telefax)

MANILA CENTRAL AREA

DASMARINAS-BINONDO
STP Bldg., 304 Dasmarinas St. cor. Marquina St., Binondo, Manila
(632) 247-1471 / (632) 247-1472

ELCANO
684 Elcano St., Binondo, Manila
(632) 241-4151 / (632) 242-2204 (fax)
(632) 242-2201 to 03

JUAN LUNA
465 MCU Bldg., Juan Luna St., Binondo, Manila
(632) 241-0373 / (632) 241-0240 (fax)
(632) 241-0407 / (632) 241-1178

SOLER
1004 Reina Regente cor. Soler St., Binondo, Manila
(632) 244-7001 / (632) 244-7002
(632) 244-7003 / (632) 244-7004 (fax)

TUTUBAN
Units M2-GO21-22 Center Mall II Tutuban Center, C.M. Recto Ave., Manila
(632) 251-9988 / (632) 251-9989
(632) 353-0086

QUIAPO
609 Sales St., Quiapo, Manila
(632) 733-8705 / (632) 733-9326
(632) 733-9462 / (632) 733-9366 (fax)

CALOOCAN A. MABINI
102 A.Mabini St., Maypajo, Caloocan City
(632) 287-0581 / (632) 287-0261
(632) 287-2344 / (632) 287-4709 (fax)

GRACE PARK
G/F HGL Bldg., 554 EDSA cor. Biglang-Awa St., Caloocan City
(632) 361-5916 / (632) 361-5917
(632) 361-1832 / (632) 361-0931(fax)

MANILA WEST AREA

ADUANA
G/F FEMII (Main) Bldg.A., Soriano St., Aduana, Intramuros, Manila
(632) 527-2893 / (632) 526-8959
(632) 527-2947 (fax)

ERMITA
1312 A. Mabini St., Ermita, Manila
(632) 254-7549 / (632) 254-7550
(632) 254-7545 / (632) 254-7546
(632) 525-7330 (fax)

TAFT AVE.-P. FAURA
Don Santiago Bldg., 1344 Taft Ave., Manila
(632) 524-2303 / (632) 536-4959
(632) 526-6049(fax)

PORT AREA
G/F Mary Bachrach cor. 25th & A.C. Delgado St. Port Area, Manila
(632) 527-7986 / (632) 527-7987
(632) 527-7989 / (632) 527-3978 (fax)

RESORTS WORLD
G/F Resorts World Mall, Newport Cybertourism Zone, Pasay City
(632) 551-3521 / (632) 239-5860
(632) 239-5848 / (632) 551-3520 (fax)

TAFT AVE.
Ground Floor, Endriga Bldg., 2270 Taft Ave., Malate
(632) 523-2297 / (632) 523-5323
(632) 521-9130 / (632) 521-9124 (fax)

UNITED NATIONS
429 Victoria Bldg., United Nations Ave., Ermita, Manila
(632) 526-0590 / (632) 526-0222
(632) 524-9935 / (632) 521-8663 (fax)

ROXAS BLVD.
Kanlaon Towers, Roxas Blvd., Pasay City
(632) 851-0106 / (632) 851-2680
854-4071 (fax)

QUEZON CITY CENTRAL AREA

DILIMAN
Commonwealth Ave., cor. Masaya St., Diliman, Quezon City
(632) 927-6074 / (632) 920-2324
(632) 921-2081(fax)

DEL MONTE
Bank of Commerce Bldg., Del Monte Ave., cor. D. Tuazon St. Quezon City
(632) 410-8025 / (632) 743-5974
(632) 743-2592 / (632) 743-2541(fax)

VISAYAS AVE.
43 Visayas Ave. Brgy. Vasra, Quezon City
(632) 426-4854 / (632) 426-4732
(632) 426-4842 / (632) 426-4955 (fax)

WEST AVE. (DELTA)
11 West Ave. cor.Zamboanga St. Quezon City
(632) 374-5544 / (632) 374-5548
(632) 374-6820 / (632) 374-5546 (fax)

WEST TRIANGLE
1451 Quezon Ave. cor. Examiner St., Quezon City
(632) 925-1209 / (632) 924-7528
(632) 414-1044 / (632) 927-4063 (fax)

BROADCAST CITY
Capitol Hills, Diliman, Quezon City
(632) 932-4627 to 28
(632) 932-8117 / (632) 932-8092
(632) 931-4969 (fax)

COMMONWEALTH
Holy Spirit Drive, Don Antonio Subd., Brgy. Holy Spirit, Commonwealth Ave., Quezon City
(632) 952-7990 / (632) 952-7991
(632) 952-7989 / (632) 952-7986 (fax)

CUBAO
Unit 1, G/F Harvester Corporate Center, P. Tuazon cor. 7th & 8th Ave., Brgy. Socorro, Cubao, Quezon City
(632) 501-2303 / (632)501-2284

KATIPUNAN PETRON
Petron Katipunan Complex, Katipunan Ave., corner Mangyan Road, La Vista, Quezon City
(632) 921-4020 / (632) 376-1517
(632)921-4042 (fax)

MANILA NORTH AREA

E. RODRIGUEZ
990-A E. Rodriguez Sr. Ave. Brgy. Mariana, Quezon City
(632) 722-2195 / (632) 722-2379
(632) 722-2197 / (632) 722-2376 (fax)

BANAWE
128-B. WAS Bldg., Banawe St., Quezon City
(632) 711-9456 / (632) 711-9454
(632) 711-9428 / (632) 410-1730 (fax)

KAMUNING
Tomas Morato Ave., cor. Dr. Lascano St. Kamuning, Quezon City
(632) 922-7981 / (632) 922-7982
(632) 922-7998 (fax)

MALABON
29 Gov. Pascual Acacia Ave. Malabon City, Metro Manila
(632) 446-7385 / (632) 446-7390
(632) 288-7574 / (632) 288-7572
(632) 288-7571(fax)

MALABON-GEN. LUNA
45 Gen. Luna St., Brgy. San Agustin Malabon City
(632) 283-6796 / (632) 283-6737
(632) 283-6734 / (632) 281-5612 (fax)

FAIRVIEW PETRON
Petron Fairview, Commonwealth Ave., Fairview, Quezon City
(632) 376-1023 / (632) 376-1024
(632) 374-1025 (fax)

VALENZUELA
45 Gen. Luna St., Brgy. San Agustin Malabon City
(632) 794-6063 / (632) 794-6058
(632) 322-2260 / (632) 794-6064 (fax)

QUEZON AVE.
Sto. Domingo Church Compound, # 8 Biak na Bato St. cor. Quezon Ave., Quezon City
(632) 712-2534 / (632) 712-2560
(632) 732-8360 / (632) 742-2097 (fax)

MANILA EAST AREA

EASTWOOD PETRON
188 E. Rodriguez Jr. Ave. (C-5) Bagumbayan, Quezon City
(632) 655-1134 / (632) 654-0084
(632) 655-1204 (telefax)

GREENHILLS
Eisenhower Tower, No. 7 Eisenhower St. Greenhills, San Juan, Metro Manila
(632) 723-5380 / (632) 723-5381
(632) 721-0990 / (632) 727-4936 to 39
(632) 722-4944 (fax)

WACK-WACK PETRON
553 Shaw Blvd., Brgy. Wack-Wack, Mandaluyong City
(632) 738-1984 / (632) 738-1985
(telefax)

PASIG
Renaissance 2000 Tower Meralco Ave., Pasig City
(632) 635-0392 / (632) 636-7491
(632) 635-3661 to 63 / (632) 631-3769(fax)

MAIN OFFICE-SAN MIGUEL
Unit A G/F, San Miguel Properties Center, No.7, Saint Francis St., Mandaluyong City
(632) 982-6000 loc. 6414 to 6417
(632) 635-5501 / (632) 635-5517
(632) 633-2430 (telefax)

CAINTA
40 Felix Ave., San Isidro, Cainta, Rizal
(632) 682-5998 / (632) 682-8524
682-6243 (telefax)

CONCEPCION
A.M. PACLEB Bldg., #52 Bayan-Bayanan Ave. Concepcion, Marikina City
(632) 941-0714 /(632) 941-1998
(632) 942-0429 (fax)

MARIKINA
J.P. Rizal St., Sta. Elena, Marikina City
(632) 646-1951 / (632) 646-1808
(632) 646-1802 (fax)

MARCOS HI-WAY (CAINTA)
No. 4 Gil Fernando Ave. cor. Pitpitan Street, San Roque, Marikina City
(632) 647-7172
(632) 647-7165
(632) 647-6956

LUZON

SOUTH LUZON AREA

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

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

CALAMBA
Ragasa Complex, South National Road Parian, Calamba City, Laguna
(049) 545-5850 / (049) 545-2276
(049) 545-5413 / (632) 420-8290
(Manila Line)

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

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

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

NAGA CITY
Romar Bldg. 1, 258 Elias Angeles St. Naga City
Manila Line: (02) 250-8093 (telefax)
(054) 473-4080 / (054) 811-8931

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

LUCENA
Quezon Ave. cor. Lakandula St., Barangay IX, Lucena City
(042) 710-9692 / (042) 710-9693
(042) 710-9694 / (042) 710-9691 (fax)

TANAUAN
Corachea Building J.P. Laurel Hi-way cor. Molave St., Tanauan City, Batangas
(043) 784-6907 / (043) 784-6994
(043) 784-6990 (telefax)

PUERTO PRINCESA
J.P. Rizal Ave., Brgy. Manggahan
Puerto Princesa City, Palawan
(048) 434-2170 (telefax)
(048) 434-2171 /(048) 434-2172

CENTRAL LUZON AREA

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

BALIBAGO
Mc Arthur Highway cor. Victor St.,
Balibago, Angeles City
(045) 625-5586 / (045) 892-0875
(045) 331-3389 / (045) 331-3390

BALIUAG
Dona Victoria Bldg., Gil Carlos
cor. Año St., Baliuag,
(044) 766-2022 / (044) 766-7701
(044) 766-2811 (telefax) / 0923-2286273 (Sun Mobile)

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

MALOLOS
Paseo del Congreso, Malolos, Bulacan
(044) 791-2452 / (044) 791-0342
Manila Line: (02) 299-8109 (telefax)

SAN FERNANDO
Insular Life Bldg., Mc Arthur Hi-Way,
Brgy. Dolores, San Fernando, Pampanga
(045) 961-1624 / (045) 961-1675
(045) 961-1680 (fax)

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

SUBIC FREEPORT
Global Promenade Bldg.
Sampson Road cor. Schley Road
Subic Bay Freeport Zone
(047) 252-1851 (047) 252-1854
(047) 252-1857 / (047) 252-1863
(telefax)

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

BALANGA
P. Paterno St., Poblacion
Balanga City, Bataan
(047) 237-7622 / (047) 791-2454
(047) 451-5032 / (047) 791-2366
(telefax)

NORTH LUZON AREA

BAGUIO
G/F, YMCA Baguio Bldg, Post Office
Loop (Upper Session Road), Baguio City
(074) 619-0072 to 73
(074) 619-0074

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

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

CANDON
National Highway, cor. Abaya St.
Candon City, Ilocos Sur
(077) 644-0288 / (077) 742-6025
(077) 742-6024 (fax)

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

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

SAN FERNANDO-LA UNION
No. 7, Alexander St., Poblacion
Urdaneta City, Pangasinan
(072) 242-5683 to 85
(072) 242-5684 / (072) 700-1618

TUGUEGARAO
#27 Bonifacio cor. Washington Sts.,
Tuguegarao City, Cagayan
(078) 844-8041 / (078) 844-8042
(078) 844-8044 (telefax)

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

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

VISAYAS

EASTERN VISAYAS AREA

CEBU-MAIN
B.Rodriguez cor. Osmeña Blvd.,
Cebu City
(032) 253-1951 to 53
(032) 255-4223 (fax)

CEBU-AYALA
8990 Negros St., Cebu Business Park,
Cebu City
(032) 415-5164/ (032) 415-5165 (fax)
(032) 415-5162 / (032) 239-0675
(032) 239-0674

CEBU-BANILAD
G/F University of Cebu Bldg.
Gov. Cuenco Ave., (Banilad Rd.) 6000
Brgy. Kasambagan, Cebu City
(032)231-6704 / (032) 231-6705
(032) 231-6706 (fax)

CEBU-JUAN LUNA
Osmeña Blvd. cor. Plaridel St., Cebu City
(032) 253-3030 / (032) 253-4174
(032) 253-3999 / (032) 255-2065 (fax)

CEBU-PASIL
Virginia Bldg., Tupas St., Pasil, Cebu City
(032) 261-1597 / (032) 261-1598
(032) 261-1599 (telefax)

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

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

ORMOC
H. Serafica Bldg., Real St., Ormoc City
(053) 561-8523/255-4366 (telefax)

TAGBILARAN
G/F CAP Bldg., CPG North Ave.,
Tagbilaran city
(038) 501-8987 / (038) 411-5400
(038) 411-3773 (telefax)

WESTERN VISAYAS AREA

BACOLOD-ARANETA
Yusay Arcade, Araneta St., Bacolod City
(034) 433-4668 to 69
(034) 433-2267 (telefax)

BACOLOD-LACSON
Cor. 12th St. & Lacson Sts., Bacolod City
(034) 433-4238 / (034) 434-1594
(034) 433-1139 (telefax)

DUMAGUETE
CAP Bldg., Rizal Ave., Poblacion,
Dumaguete City
(035) 225-7667 to 69
(035) 422-6896 / (035) 225-7670 (fax)

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

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

ILOILO-J.M. BASA
TTW Building, Mapa St., Iloilo City
(033) 337-8721 / (033) 337-8662
(033) 335-1020 (telefax)

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

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

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

MINDANAO

MINDANAO AREA

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

CAGAYAN DE ORO-LAPASAN
Suites 6 & 7, Gateway Tower 1
Limketkai Center, Lapasan Highway
Cagayan de Oro City
(088) 856-3991 / (088) 856-3992
(088) 856-3977 (telefax)

CAGAYAN DE ORO-VELEZ
Don A. Velez-Akut Sts.,
Cagayan de Oro City
(088) 856-4123 / (088) 856-4371
(telefax)

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

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

DAVAO-STA. ANA
Maxima Siasu Bldg., R. Magsaysay Ave.
cor. Lizada St., Davao City
(082)222-4953 / (082) 227-5235
(082) 226-2859 (telefax)

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

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

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

ZAMBOANGA-VETERANS
Veterans Avenue cor. Camanchile St.
Zamboanga City
(062) 991-2381 / (062) 991-2982
(062) 991-2980 (telefax)

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RMD-Credit Risk Management Department

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StSG-General Services Division

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Bank of Commerce

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