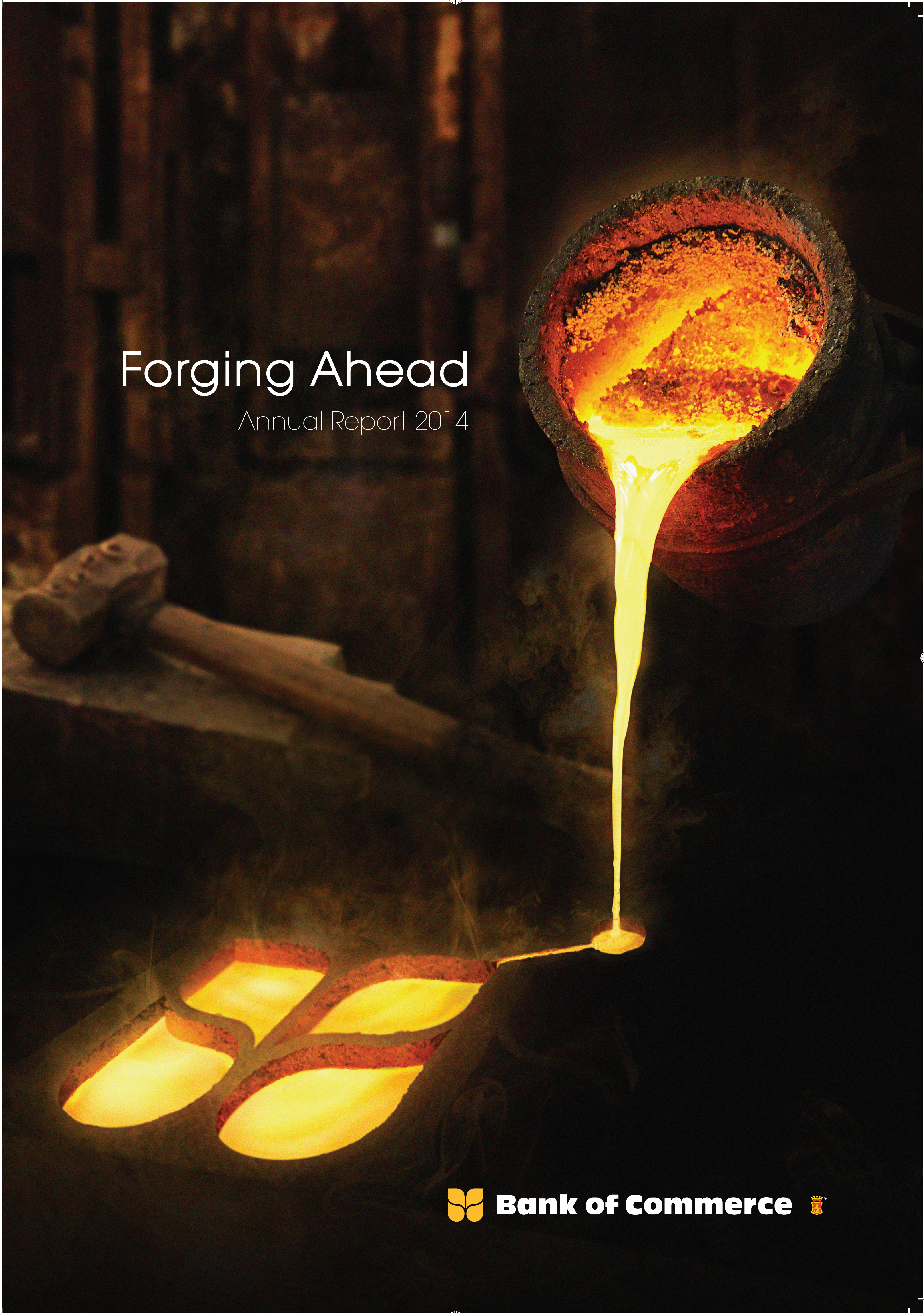
Forging Ahead

Annual Report 2014



Bank of Commerce

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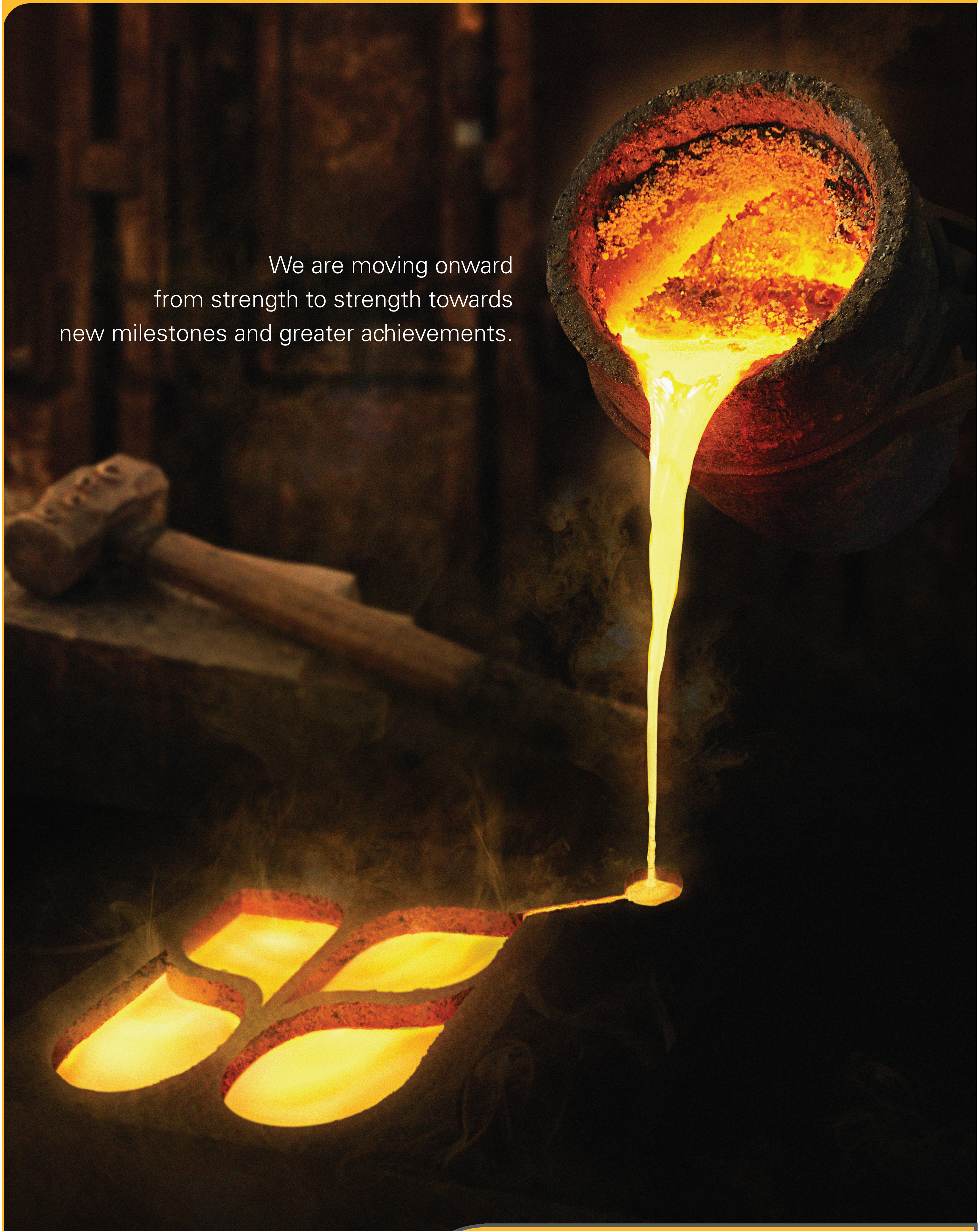


We are moving onward
from strength to strength towards
new milestones and greater achievements.

Vision

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

Mission

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

We are Bank of Commerce.

Service Promise

With integrity and financial stability, we commit to deliver superior service to you, our discerning customers. Through competent and warm professionals who understand, anticipate, and fulfill your needs with a sense of urgency in a safe and guest-friendly environment, we promise you a meaningful banking experience.

Chairman's Report

The past year was a turning point for the global banking industry, as many banks focused on protecting their bottom lines from the effects of thinning intermediation spreads, erratic market prices of securities and sovereigns, and unavoidable impairment loss charges. Furthermore, many financial institutions found themselves in the position of changing market and financial strategies, having to adjust pricing, and having to contend with lower trading gains and non-interest revenues during the year. Although global economists have predicted that the worst of the financial crises is behind us, institutions are finding that full recovery can be slow and painful. Philippine banks have remained resilient and continue to adapt to the changing economic environment, reporting double digit returns for 2014.

The Philippines registered growth at 6.1% last year. This may not have reached its GDP targets of 6.5% to 7.5%, mainly due to government underspending and the ailing farm sector, but the country registered the strongest performance in the Southeast Asian region and second only to China among Asian markets. We are confident in the knowledge that we are merely biding our time as we lay a stronger, more stable foundation upon which to take advantage of the promised upturn in 2015.

Although government GDP growth targets for 2015 of between 7% and 8% are higher than forecasts of the IMF, World Bank and credit rating agencies, it will be a noteworthy achievement as the country is expected to outpace our ASEAN neighbors.

We, at Bank of Commerce, have experienced a fruitful year because of the diligent work of the men and women behind each and every department.

Due to the keen inflation targeting by Bangko Sentral ng Pilipinas (BSP), the Philippine peso remains a strong currency and the local market is shielded from any ill effects of uncontrolled inflation. Local banks are experiencing strong growth. The BSP maintains that Philippine banks are adequately capitalized to take external shocks.

The Philippine Stock Exchange (PSE) has also continued to perform well and broke records throughout the year despite periodic dips, indicating that all sectors on the broad index still manage to attract investors.

Additional good news came from the unprecedented improvement of investment grade ratings from top credit rating agencies such as Standard & Poor's, Moody's, and Fitch Ratings. First-ever ratings from Japan Credit Rating Agency (JCR), Rating & Investments, Inc. (R&I) and Korean-based National Information and Credit (NICE) only confirmed, that the Philippine economy is moving on the right track towards growth. The collective approval of these credit rating agencies on our country's fiscal policies and good governance only bodes very well for Philippine banks.

We, at Bank of Commerce, have experienced a fruitful year because of the diligent work of the men and women behind each and every department. We believe that through the continued internal growth and improvement, we are building a sustainable and formidable business model that can keep up with the changing times. We will weather whatever financial storms may come as a result of the ever-changing business environment.

We remain stalwart and steady, as we owe it to our stakeholders – directors, officers and staff, and clients – all those who trust in us, and whose faith has never wavered. Bank of Commerce shall continue to deliver the quality of service and integrity that our customers and shareholders have come to expect.

Jose T. Pardo

President & CEO's Report

Last year was a year of challenges and triumphs for Bank of Commerce. We set out on a path of improvement two years ago, and today our efforts are bearing fruit. Total assets grew by 18% to P140.7 billion, from P118.9 billion a year ago.

To sustain this momentum, we focused on improving the quality of the products and services that we provide our customers.

The service superiority program was launched to be the platform in achieving the vision of becoming the bank of choice for our customers. The program started with the senior management team who established the benchmarks for superior banking service. The cascading process will cover all middle management and staff personnel in marketing and non-marketing positions. This was designed to transform the Bank and be able to deliver world-class customer service on all levels.

In addressing customer service, we turned our focus on the Branch Banking Group. Branch Operations was transferred to the Branch Banking Group and Branch Operations Control Centers were set-up nationwide. These initiatives made great progress in streamlining processes and improving service delivery and control. As a result, branch personnel now have more time for cross-selling and business development.

The Bank now has 125 branches. It added three (3) new branches in the restricted areas of Pasig City and Makati City. Another branch was opened in Bonifacio Global City, Taguig. Deposits grew at 19% to P119.6 billion from 2013 year-end balance of P100.3 billion.

In our efforts to convert non-performing assets to earning assets, past due loans dropped by 34%. This improved the Bank's Past Due Loans ratio. Likewise, we also saw substantial take up of Real and Other Properties Acquired (ROPA) accounts which contributed to one-off gains from the sale.

Corollary to increasing efficiency, the Bank has taken great strides to cut operating costs including

> We look forward to 2015 with optimism. With the concerted efforts of the Bank's human resources, we hope to continue reshaping the organization into a more efficient and profitable organization.

the rationalization of our ATM network. These cost-saving initiatives registered gains on our operating expenses.

To diversify the loan portfolio, we launched the Small Business Loan product. The objective is to attract small and medium enterprises which are the core of our branch customers. This will provide the momentum for our targeted SME loan volume in the coming years.

The Consumer Loan portfolio grew by 22%. Working with developers and car dealerships, our home and auto loans increased from P3.0 billion to P3.8 billion and is expected to further grow in 2015.

To increase fee-based income, we launched the Forex Center service, targeting regular travelers and overseas contract workers. This initiative serves to complement the Bank's remittance business which took off last year with the deployment of BOC Remit System allowing real time, online connectivity with our remittance partners worldwide. We re-launched the Retail and Corporate Internet Banking products with enhanced features. This aims to encourage customers to transact via the internet banking platform regular banking services such as, bills payment, fund transfers, card loading and other services.

To attract the younger segment of the population, the Junior Smart Savers deposit account product was introduced. The account comes with a mobile app designed specifically for the target market, i.e., children of existing Clients. It provides access to games, discounts and promos from partner merchants.

The Bank's net income for 2014 was P1.33 billion, a significant increase from last year. This was a product of the dedication of the men and women behind Bank of Commerce.

We look forward to 2015 with optimism. With the concerted efforts of the Bank's human resources, we hope to continue reshaping the organization into a more efficient and profitable organization.

Roberto C. Benares

Corporate Governance

ADOPTION OF MANUAL ON CORPORATE GOVERNANCE

Bank of Commerce adopted a Manual on Corporate Governance pursuant to Securities and Exchange Commission Memorandum Circular No. 6 Series of 2009 and No. 9 Series of 2014 issued on June 22, 2009 and May 6, 2014, respectively, Bangko Sentral ng Pilipinas (BSP) Circular No. 840 issued on July 2, 2014 and Section X141 of the BSP 2013 Manual of Regulations for Banks. Said Manual is being updated every year or as often as needed when there are significant changes in laws and regulations. The Manual also incorporates the applicable provisions of the General Banking Law of 2000.

The Manual on Corporate Governance contains the principles of sound corporate governance which shall be adhered to by all directors, officers and employees of Bank of Commerce as they discharge their respective duties and responsibilities. It emphasizes the Board of Directors' commitment to prudently 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.

One very important element of the Corporate Governance Manual is the adoption last year of the Related Party Transactions Policy and the creation of the Related Party Transactions Committee. The Bank recognizes that certain transactions involving related parties present a heightened risk of conflict of interest or the perception thereof. The policy defines terms to ensure that such transactions are entered into on an arm's length basis and are consistent with the Bank and its shareholders' interests.

BOARD GOVERNANCE

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

BOARD OF DIRECTORS

Bank of Commerce has fifteen (15) 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.

To effectively carry out their duties and responsibilities, the members of the Board of Directors are required to attend a program on corporate governance conducted by training providers duly accredited by the Bangko Sentral ng Pilipinas.

BOARD COMMITTEES

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

THE CORPORATE SECRETARY

The Corporate Secretary is responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as 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, stockholders and other stakeholders. 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.

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.

REMUNERATION FOR DIRECTORS AND OFFICERS

Directors are entitled to per diem allowance for their attendance at Board of Directors and Board Committee meetings. The Bank ensures these allowances are at par with peers. Corollary to this, the Bank utilizes data gathered from an industry survey to ensure that remuneration packages of the Bank's Directors, senior executives, and officers are within industry standards.

Employee performance is recognized through periodic performance assessments. This process provides the basis for salary increases and performance bonuses.

ADEQUATE AND TIMELY INFORMATION

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

FINANCIAL REPORTING, CONTROLS & AUDIT

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

STOCKHOLDERS' RIGHTS & PROTECTION OF MINORITY STOCKHOLDERS' INTEREST

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

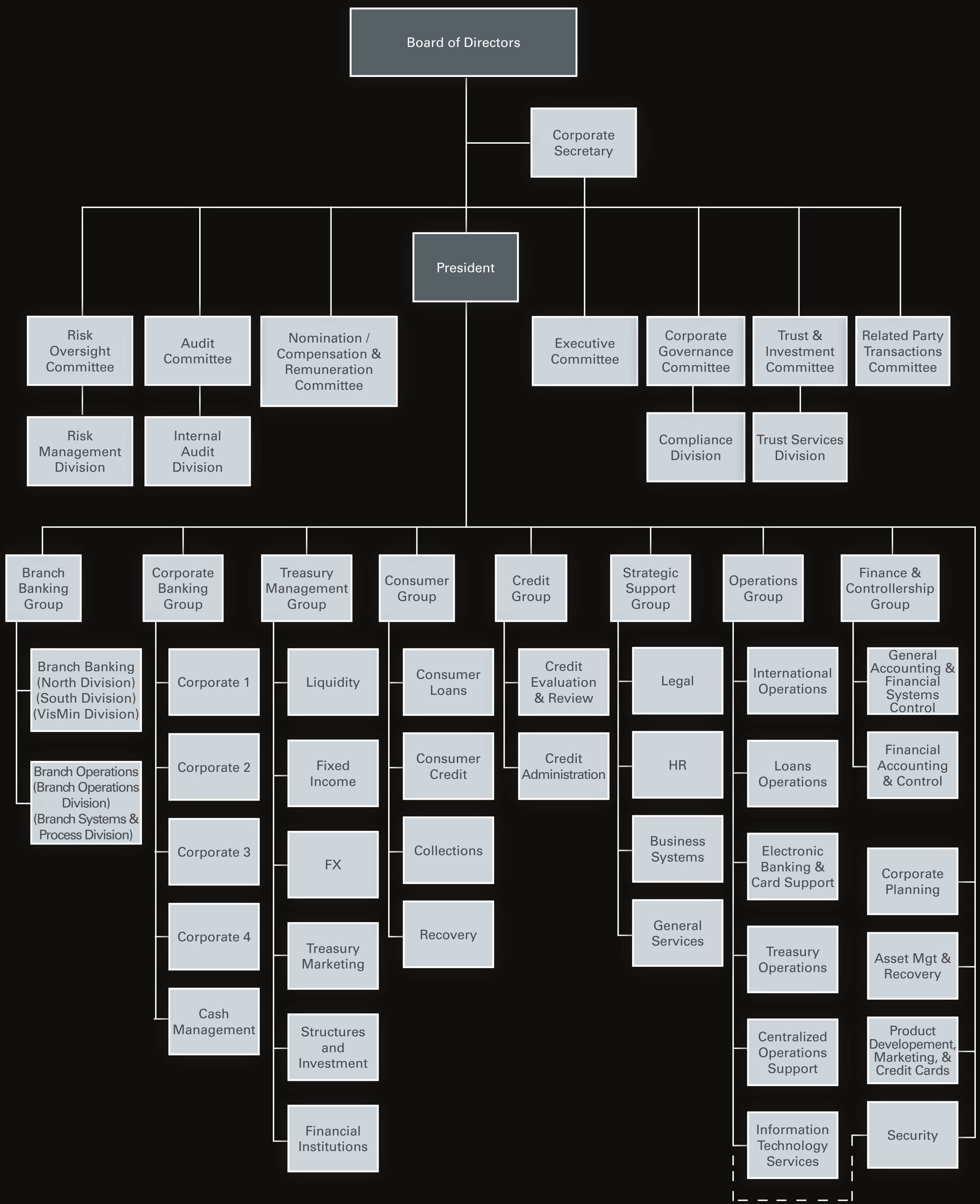
The Board has formulated policies to afford an open channel of communication for the Bank's various stakeholders so they can express their concerns and other views to the Bank. It recognizes their rights as established by law and encourages their active participation in promoting financially sound, and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

DISCLOSURE AND TRANSPARENCY

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


Board of Directors
Corporate Secretary
President
Risk Oversight Committee
Audit Committee
Nomination / Compensation & Remuneration Committee
Executive Committee
Corporate Governance Committee
Trust & Investment Committee
Related Party Transactions Committee
Risk Management Division
Internal Audit Division
Compliance Division
Trust Services Division
Branch Banking Group
Corporate Banking Group
Treasury Management Group
Consumer Group
Credit Group
Strategic Support Group
Operations Group
Finance & Controllership Group
Branch Banking (North Division) (South Division) (VisMin Division)
Branch Operations (Branch Operations Division) (Branch Systems & Process Division)
Corporate 1
Corporate 2
Corporate 3
Corporate 4
Cash Management
Liquidity
Fixed Income
FX
Treasury Marketing
Structures and Investment
Financial Institutions
Consumer Loans
Consumer Credit
Collections
Recovery
Credit Evaluation & Review
Credit Administration
Legal
HR
Business Systems
General Services
International Operations
Loans Operations
Electronic Banking & Card Support
Treasury Operations
Centralized Operations Support
Information Technology Services
General Accounting & Financial Systems Control
Financial Accounting & Control
Corporate Planning
Asset Mgt & Recovery
Product Developement, Marketing, & Credit Cards
Security

Risk Management

RISK PHILOSOPHY AND GUIDING PRINCIPLES

The Bank's goal is the generation of steady returns to shareholders' capital. As a result, the Bank's business principles, strategies and operations are designed to achieve cashflows in excess of its obligations to its fund providers and stakeholders. In order to achieve this, the Bank takes risks which are inherent in the conduct of its commercial banking franchise. Risk taking presents opportunities to earn more than expected returns provided risk taking is intentional, investigated and controlled. The Bank's risk-taking activities are guided by the following principles:

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

RISK MANAGEMENT OVERSIGHT

The Bank's Board of Directors (BOD), Board Risk Oversight Committee (BROC), and Risk Management Division (RSK) shall be responsible for setting the overall risk management framework and risk appetite of the Bank including setting the "tone at the top," reviewing strategy and approving the Bank's risk appetite. The BOD is the sole arbiter of the risks taken by the organization. It has the sole discretion to determine what manner (strategic direction) and magnitude (risk appetite) of risk are 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 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. RSK is mandated to strengthen the Bank's risk management infrastructure to meet the requirements of its 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;
- Implementing the risk management framework approved by the Board of Directors;
- Actively promoting a culture of risk awareness and risk management; and
- Coordinating with Finance and Controllership Group 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, and is independent from the risk-taking business units of the Bank. Headed by the Chief Risk Officer, 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 to the BROC portfolio limits and monitors and reports credit exposure against the limits. 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 and liquidity risk management policies, setting uniform standards of risk assessment and capital adequacy. 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 analyzes exceptions to set market and liquidity risk limits.

OPERATIONAL RISK MANAGEMENT

Operational Risk Management Department (ORM) monitors the adequacy and effectiveness of the systems of internal control to ensure that these 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 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 business operations of Trust Services Division and reports to the Trust Investment Committee (TIC) and BROC periodically. TRM develops and enhances the policies and procedures in operational, credit, liquidity and market risks in accordance with the risk management framework of the Bank. 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 RSK. Market risks are measured by mark-to -market analysis on portfolios. These exposures are also stress-tested under worst-case scenarios.

Quality of credit risks is 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, TIC, Auditcom, Senior Executive Team and various management committees of the Bank.

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

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

Risk Management

Risk Exposures and Assessments
(As reported to Bangko Sentral ng Pilipinas)

Risk Weighted Assets
Bank of Commerce risk weighted assets at the end of 2014 totaled PHP 66.1 billion.

RISK WEIGHTED ASSETS	2014	2013
Credit Risk	**59,155**	**59,016**
On-Balance Sheet	58,881	58,535
Commitments	338	373
Contingencies	-	108
Deduction: GLLP (in excess of 1% of credit risk-weighted assets)	64	-
Market Risk	**737**	**1,839**
Interest Rate Risk	209	592
Foreign Exchange Risk	528	1,247
Operational Risk	**6,195**	**6,860**
TOTAL RISK WEIGHTED ASSETS	**66,087**	**67,715**

** Amounts in millions*

CREDIT RISK

The Bank measures its exposure to credit risk using the standardized approach. This approach allows the bank to utilize a wider differentiation of risk weights and a wider recognition of risk mitigation techniques without taking in excessive complexity in the process.

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 recognized by the BSP. Credit risk exposures at the end of 2014 include PHP137.764 billion in balance sheet exposure.

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

ON-BALANCE SHEET ITEMS ASSESSED WEIGHT FOR CREDIT RISK	2014	2013
Cash & Other Cash Items	**2,325**	**1,672**
Due From Banks (including ILR)	**58,443**	**36,461**
Securities	**27,198**	**28,257**
Sovereign	23,348	23,786
Bank	-	-
Corporate	3,850	4,471
Loan Portfolio	**40,208**	**42,289**
Loans to Corporates	35,410	38,175
Loans to Individuals - Qualified Residential REM	2,108	1,542
Loans to Individuals - Other Loans	2,081	1,841
Defaulted Exposures - Qualified Residential REM	161	148
Defaulted Exposures - Other Loans	448	583
Sales Contracts Receivable	**1,135**	**1,259**
Real & Other Properties Acquired	**2,387**	**1,975**
Other Assets	**6,068**	**6,852**
TOTAL ON-BALANCE SHEET ITEMS WEIGHTED FOR CREDIT RISK	**137,764**	**118,765**

** Amounts in millions*

As of December 31, 2014 and 2013, other assets have been subjected to the following deductions:

	2014	2013
Total Assets	139,128	118,111
General Loan Loss Provisions	656	318
Deductions		
Total Exposures Excluding Other Assets	131,696	111,914
Financial assets held for trading	353	440
Deferred tax assets	384	-
Other intangible assets	414	-
Other equity investments in non-financial allied undertakings and non-allied undertakings	53	27
Significant Minority Investments	-	51
Reciprocal Equity Investments	20	18
Accumulated market gains/(losses) on AFS	-	(1,264)
Total carrying amount of Securitization Exposures	796	391
Total Other Assets	**6,068**	**6,852**

** Amounts in millions*

The Bank considers credit risk mitigation as a means to lower its exposure to credit risk. At the end of 2014, PHP0.704 billion in credit risk exposures carried mitigation either in the form of qualified guarantees from third parties (PHP1 million) or by way of full asset cover (PHP703 million). These credit risk items eventually carried zero risk weight due to the effectiveness of the mitigation.

ON-BALANCE SHEET ITEMS COVERED BY CREDIT RISK MITIGATION	2014	2013
Exposures Covered by Credit Risk Mitigation	704	1,866
Items Covered by Guarantee (After Risk Weighting)	-	-
Items Covered by Collateral (After Risk Weighting)	-	-

** Amounts in millions*

The Bank acknowledges the potential credit exposure arising from having committed to extend 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 2014 was PHP0.338 billion.

COMMITMENTS TO LEND (LOAN EQUIVALENT EXPOSURE)	2014	2013
Direct Credit Substitutes	333	333
Transaction-related Contingencies	2	1
Trade-related Contingencies	3	39
Other Commitments	-	-
Total Commitments to Lend (Loan Equivalent Exposure)	**338**	**373**

** Amounts in millions*

Net credit risk-weighted exposure at the end of 2014 was PHP59.155 billion, after the allowed deductions arising from general loan loss provisions in excess of 1% of total credit risk-weighted assets. This credit exposure represents 89.5% of total risk-weighted assets.

The on-balance sheet credit risk weighted assets without credit mitigation totaled P58.881billion. On-balance sheet exposure makes up 99.4% of total credit-risked weight assets while the remainder is in off-balance sheet assets particularly commitments to lend.

Risk Management

ON-BALANCE SHEET CREDIT RISK WEIGHTED ASSETS	2014	2013
Cash & Other Cash Items	**30**	**3**
Due From Banks (including ILR)	**4,269**	**3,079**
Securities	**4,197**	**3,770**
Sovereign	3,248	1,800
Bank	-	-
Corporate	949	1,970
Loan Portfolio	**39,389**	**40,419**
Loans to Corporates	35,029	36,676
Loans to Individuals - Qualified Residential REM	1,770	1,246
Loans to Individuals - Other Loans	1,758	1,474
Defaulted Exposures - Qualified Residential REM	161	148
Defaulted Exposures - Other Loans	671	875
Sales Contracts Receivable	**1,348**	**1,449**
Real & Other Properties Acquired	**3,580**	**2,963**
Other Assets	**6,068**	**6,852**
TOTAL CREDIT RISK WEIGHTED ASSETS	**58,881**	**58,535**

** Amounts in millions*

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 2014 was PHP737 million.

MARKET RISK WEIGHTED ASSETS	2014	2013
Interest Rate Risk Specific to the Issuer of Debt Instruments	32	369
Interest Rate Risk Attributable to Market Conditions	177	223
Foreign Exchange Risk	528	1,247
TOTAL MARKET RISK WEIGHTED ASSETS	**737**	**1,839**

** Amounts in millions*

OPERATIONAL RISK

The Bank measures its exposure to operational risk using the basic indicator approach under Philippine Banking Regulation. The approach utilizes the historical total annual gross income as the measure of risk exposure. Total operational risk weighted assets at the end of 2014 was PHP6.2 billion.

OPERATIONAL RISK WEIGHTED ASSETS	2014	2013
Average income of the Previous Three Years	3,304	3,659
Capital Charge (15 pct of Average Income)	496	549
Calibration (Capital Charge times 1.25)	619	686
TOTAL OPERATIONAL RISK WEIGHTED ASSETS (Calibrated Capital Charge times 10)	**6,195**	**6,860**

** Amounts in millions*

STRUCTURED PRODUCTS

The Bank's investment in structured products was significantly reduced in 2014. Its credit-linked notes were all sold. Only its exposure to collateralized debt obligations was left. These remaining investments were booked as Unquoted Debt Securities Classified as Loans (UDSCL). The Bank maintained provision for probable losses for these investments to the extent assessment has proven the asset uncollectible. With this allowance and the sale of its credit-linked notes, the total carrying value of its structured products portfolio was greatly reduced. As of December 31, 2014, the total carrying value of the Bank's structured products amounting to PHP796 million represents investment in MRT Tranche 3 Notes.

Investment in Structured Products in 2014	Carrying Value of Host Instrument	Carrying Value of Embedded Derivatives	Gross Exposure	Provision for Loss	Total Carrying Value of Exposure
Credit-Linked Notes (ROP Reference)	0.000	0.000	0.000	0.000	0.000
Collateralized Debt Obligations	317.910	0.000	317.910	(317.910)	0.000
Other Structured Investments	795.920	0.000	795.920	0.000	795.920
TOTAL	1,113.830	0.000	1,113.830	(317.910)	795.920

Investment in Structured Products in 2013	Carrying Value of Host Instrument	Carrying Value of Embedded Derivatives	Gross Exposure	Provision for Loss	Total Carrying Value of Exposure
Credit-Linked Notes (ROP Reference)	2,296.700	(7.450)	2,289.250	0.000	2,289.250
Collateralized Debt Obligations	1,168.340	0.000	1,168.340	(874.870)	293.470
Other Structured Investments	430.520	0.000	430.520	0.000	430.520
TOTAL	3,895.560	(7.450)	3,888.110	(874.870)	3,013.240

** Amounts in millions*

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 all persons within the organization to know the laws, rules, and regulations attendant to their functions. In addition, the units in charge of compliance (legal, regulatory, tax) regularly disseminate any new issuances for the understanding of concerned units.

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

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

REPUTATIONAL RISK

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

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

Risk Management

LEGAL RISK

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

PENSION RISK

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

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

The annual third party actuarial evaluation of the condition of the retirement plan considers the relevance of the assumption used in valuation and recommends the necessary adjustments to properly reflect the value of plan assets and liabilities. The valuation assumptions last underwent review and adjustment during the actuarial report of 2014.

MODEL RISK

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

Capital Management

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

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

REGULATORY CAPITAL OVERSIGHT

The Board oversees the deployment of capital funds bankwide, ensuring that Capital-to-Risk Weighted Assets Ratio (CAR) of the Bank meets or exceeds the minimum regulatory requirements. The following tables exhibit the Bank's capital condition as of December 31, 2014 and 2013:

** Amounts in millions*	**2014**	**2013**
Gross Qualifying Capital	16,277.97	16,006.74
Less: Regulatory deductions	1,667.60	488.27
Total Qualifying Capital	**14,610.37**	**15,518.47**
Credit risk-weighted assets	59,155.03	59,016.06
Credit risk-weighted assets	737.58	1,838.66
Market risk-weighted assets	6,194.55	6,860.12
Total Risk-Weighted Assets	**66,087.16**	**67,714.84**
Capital Adequacy Ratio or "CAR"		
Regulatory minimum is 10%	**22.11**	22.92
Tier 1 Capital Ratio		
Regulatory minimum is 7.5%	**21.16**	22.75
Common Equity Tier 1 Ratio		
Regulatory minimum is 6%	**21.16**	22.75

Source: CAR Report as of December 31, 2014 and 2013

The above ratios represent a measure of capital supply relative to the total risk-weighted assets and are measured against regulatory minimum requirements. As of December 31, 2014 and 2013, the Bank has complied with the minimum regulatory required capital.

Tier 1 Capital comprised common stock, additional paid-in capital and surplus. Common equity tier 1 represents ordinary share capital, share premium and retained earnings, including cumulative translation adjustment (refer to Note 3 of the Notes to Audited Financial Statements for the nature of the capital accounts).

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

	2014		**2013**	
** Amounts in millions*	**Risk Weighted Assets**	**Capital Requirements**	Risk Weighted Assets	Capital Requirements
Credit Risk	**59,155.03**	**5,915.50**	59,016.06	5,901.60
Market Risk	**737.58**	**73.76**	1,838.66	183.87
Operational Risk	**6,194.55**	**619.46**	6,860.12	686.01
	66,087.16	**6,608.72**	67,714.84	6,771.48

Source: CAR Report as of December 31, 2014 and 2013

The following tables exhibit the Bank's capital condition as of December 31, 2014 and 2013:

* Amounts in millions	2014	2013
Paid-up Common Stock	**11,224.11**	11,224.11
Additional Paid-in Capital	**8,748.53**	8,748.53
Retained Earnings/(Deficit)	**(4,285.05)**	(4,298.72)
Cumulative Foreign Currency Translation	**(33.47)**	(23.88)
Gross Common Equity Tier 1 (CET1) Capital	**15,654.12**	**15,650.04**
Appraisal Increment Reserve – Bank Premises	**31.66**	38.71
General Loan Loss Provision	**592.19**	318.00
Gross Tier 2 Capital	**623.85**	**356.71**
Less: Regulatory Adjustments To Qualifying Capital		
Deferred Tax Assets	**383.56**	-
Other Intangible Assets	**414.21**	-
Other Equity Investments In Non-Financial Allied Undertakings and Non-Allied Undertakings	**53.40**	27.37
Reciprocal Equity Investments	**20.50**	18.17
Securitization Tranches And Structured Products Which Are Rated below Investment Grade Or Are Unrated	**795.93**	391.42
Significant Minority Investments In Banks And Quasi-Banks, And Other Financial Allied Undertakings	-	51.31
Total Regulatory Adjustments To Qualifying Capital	**1,667.60**	488.27
Adjusted CET1 Capital	**13,986.52**	15,405.90
Adjusted Tier 2 Capital	**623.85**	112.57
Total Qualifying Capital	**14,610.37**	15,518.47

Source: CAR Report as of December 31, 2014 and 2013

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

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) OVERSIGHT

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

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

THE BOARD OF DIRECTORS AND THE BOARD RISK OVERSIGHT COMMITTEE

The Board of Directors, as the body responsible for the governance of the Bank, is the sole arbiter of the risks taken by the Bank and alone exercises discretion over the manner (strategic direction) and magnitude (risk appetite) in which the Bank's capital is placed at risk in pursuit of the Bank's strategic growth and profit targets.

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

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

ICAAP STEERING COMMITTEE

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

1. Monitors the Bank's compliance with mandated minimum capital requirements;
2. Reviews the ICAAP to ensure it effectively approximates the Bank's ability to absorb losses; and
3. Formulates and recommends guidelines, policies and procedures which enable the Bank to maintain a level of qualified capital appropriate for the Bank's risk profile.

The ICAAP Report is issued by the ICAAP Committee to the Board annually, conveying the results of the evaluation of the Bank's ICAAP. The 2014 ICAAP Report highlighted the sufficiency of the Bank's compliance with regulatory and internal capital requirements considering the strategic plans from 2015 through 2017, and the sufficiency of management's Capital Contingency Plan as well as Capital Build-up Program from 2015 through 2018, which have been approved by the BROC and Board.

Corporate Social Responsibility

Bank of Commerce believes in nation-building and remains committed to helping transform lives and building communities. Our passion to give back to the community reflects the commitment to our Corporate Social Responsibility (CSR) initiatives. We endeavor to broaden the scope of CSR and make a difference in society to positively impact the lives of Filipinos by engaging our employees' time and talents in reaching out to underserved rural and urban communities.

DAKILANG HANDOG FOUNDATION

Disiplina Village, Valenzuela

In cooperation with San Miguel Foundation, Inc. (SMFI) and Dakilang Handog Foundation, Bank of Commerce successfully held its first ever Kid's Camp in November 2014. Aptly themed "Ipakita mo Talino mo, Batang Pillipino," the one-day camp gathered more than 50 underprivileged children ages 6-12 years old who are residents of Disiplina Village in Valenzuela. Disiplina Village is a 1.9-hectare community in Barangay Ugong, Valenzuela that was expected to accommodate 900 families in 56 16-unit cluster buildings.

Bank of Commerce employees, including Senior Officers, served as volunteers in programs for foodfeeding, craftsmaking, fun and games, and community service. Special prizes and giveaways were also distributed by the Bank to kids and their families. Kid's Camp is an extension of community support by Bank of Commerce as employees had previously participated in the construction of the residential cluster buildings in Disiplina Village in 2011.

HANDICARE

Bank of Commerce continued to support programs of the Handicapped Care Association (HANDICARE) Inc., an advocate of the rights of indigent Persons with Disabilities (PWDs).

HANDICARE is a non-stock, non-profit, socio-civic organization registered with the Department of Social Welfare and Development (DSWD). In November 2014, the organization led a private event in Megamall Cinema, the proceeds of which were utilized for the supplemental feeding program of indigent PWDs' families, particularly their children.

Financial Highlights

ASSETS	2014 (in billions)	2013 (in billions)
Cash and Cash Equivalents	P40.2	P22.7
Reserves	20.6	15.5
Securities (Net)	28.2	27.1
Loans and Receivables (Net)	42.8	46.0
Other Assets	8.9	7.6
TOTAL	P140.7	P118.9

LIABILITIES AND EQUITY		
Deposits	P119.6	P100.3
Other Liabilities	3.9	4.2
Equity	17.2	14.4
TOTAL	P140.7	P118.9
	2014	**2013**
Return of Average Equity	8.40%	7.30%

STATEMENT OF INCOME	2014 (in billions)	2013 (in billions)
Net Interest Margins	P3.5	P2.8
Non-Financing Revenues	1.3	2.6
OPEX	3.8	3.8
Provisions for Loss (Reversed)	-0.4	0.3
Expense from Income Tax	0.1	0.2
NET INCOME	P1.3	P1.1

CAPITAL ADEQUACY	2014 (in billions)	2013 (in billions)
Total Qualifying Capital	P14.6	P15.5
Risk Weighted Assets	66.1	67.7
CAR	22.10%	22.90%

Operational Highlights

We made solid progress in 2014, inching towards the fulfillment of the Bank's vision and goals. While there were challenges along the way, we banded together to overcome them. Together we have paved the way for a more efficient, productive, and rewarding 2015.

BRANCH BANKING GROUP

2014 was a year of consequential changes in the organization of Branch Banking. Branch operations was tranferred to branch Banking Group. The structural reorganization and process re-engineering that ensued contributed much to the renewal of the enthusiasm of branches to deliver their business commitments.

At the forefront of streamlining and cost reduction efforts, Branch Banking Group (BBG) embarked on multiple projects to enhance efficiency in terms of more expeditious service processes, amid stronger controls and lower overhead. Its creation of the Branch Operations Control Center (BOCC) effectively removed the backroom operations from the branches and allowed its personnel to put stronger focus on core business activities such as cross-selling, referrals and client servicing. This enabled Branch Banking to partner with the Consumer Lending Group, as branches gained more headway in bringing the Bank's Home and Auto loan and credit card products to the target markets. Customer referrals by branches to Treasury and Trust also substantially increased. All these contributed in turn to BBG's strategy of developing total customer relationships with its clients.

The BOCC also strengthened the transactional review and vetting processes, on top of generating substantial savings from a significant cut in the required manning.

BBG has given priority attention to branch image and location, as it positioned the branches more seriously to be the Bank's distribution channels for its products and services. In 2014, the clients of the renovated branches in Grace Park, West Triangle and Banawe branches witnessed the smart makeover of the bank's physical interiors into one of modern yet efficient and guest-friendly layout. Similar transformations were seen in the same year in Baguio, Tarlac and La Union, all of which were moved to new and more promising locations. In the same way, alongside the "Bayanihan" clutter-free program, the other branches have been refurbished, a number of them now showcasing the Bank's new and trendy standard backwall murals.

The Bank opened its 123rd branch at the upmarket Bonifacio Global High Street on July 2, 2014. To cap a year many described as BBG's best in years, the Bank's 124th and 125th branches opened almost simultaneously at the close of the year – the Pasig Blvd. Branch in Pasig City on December 8, 2014, and the Dela Rosa Branch in Makati City on December 10, 2014.

CONSUMER LENDING DIVISION

In the year 2014, the Consumer Lending team continued its strategic activities to reinforce its presence in the industry via a steady growth tempered with credit prudence.

The banner product continued to be Housing loans, which breached the PHP2 billion level, with Auto Loans following at PHP1 billion. Salary Loans granted to the Bank's accredited companies was at PHP400 million. Delinquency rates continued to improve as a result of better accounts management in the Bank's backroom.

The team generated the most business through third-party channels such as the top and middle-tier developers and top automobile dealerships.

In the middle of the year, the Bank extended its presence in Visayas and Mindanao by assigning channel managers in Cebu covering Auto Loans and Housing Loans. This allowed CLD to be closer to the branches, developers and dealers in these areas. The group looks forward to a more prominent role in the industry with a new Consumer Lending Head and a re-engineered organization for 2015.

TRUST SERVICES DIVISION

The year 2014 has been an exceptional year for the Trust Services Division. Assets Held In Trust (AHIT) amounted to PHP20.617 billion as of year-end 2014 which is a significant growth of 145% from 2013 level of PHP8.074 billion. This impressive growth was realized amidst market swings in the capital markets and the developing sophistication and investment needs of our client base.

Investment Management Accounts (IMA) exhibited a 140% year-on-year growth contributing significantly to the increase in Trust asset level for 2014. Trust and Other Fiduciary Arrangements (TOFA) likewise, posted an impressive year-on-year growth of 254%. Further, the Diversity Dollar Bond Fund and the Diversity Peso Bond Fund which are Unit Investment Trust Funds (UITF) managed by the Trust Services Division performed well within their respective UITF categories. This is primarily due to well-timed and skillful selection of investments as well as a more active participation in the sourcing of prime debt and equity securities in both the primary and secondary markets.

Operationally, the implementation of a new trust operating system is envisioned to meet the demands of a growing trust business. The Trust Services Division developed its first Equity UITF, the Diversity Dividend Focused Fund to make Bank of Commerce at par with the competitive trust landscape.

Trust Services Division will endeavor to further strengthen its fund management capabilities, offer more competitive products and expand its market reach with the end in view of establishing a stronger presence in the trust industry.

TREASURY MANAGEMENT GROUP

Coming from a challenging 2013, Treasury Management Group opted to stay defensive entering 2014 as previous year's woes still lingered at the start of the year. December 2013 inflation printed at 4.1% and global funds were still seen leaving the country at this time. On the global front, investors were anticipating the Fed's first interest rate hike following the tapering of its quantitative easing policy. Risk-taking activities remained mindful of these uncertainties in the global and domestic markets as interest rates were foreseen to bottom out.

However, a steady, albeit slow, US economic growth coupled with well-behaved inflation supported the Fed's gradual pace of tapering and dampened concerns of a drastic interest rate hike. This provided an opportunity for bonds to improve which continued up to the latter part of the year. Meanwhile, the USD/PHP currency pair likewise took its cue from the US growth story and the anticipated interest rate increase.

Given this development, Treasury successfully re-balanced its securities portfolio and patiently realized trading gains by staying light and nimble while awaiting confirmation that yield appreciation will not happen within the year. It was also able to take advantage of the correction in the third quarter with an aggressive portfolio build up, setting up the group for a strong year-end finish. This propelled Treasury to exceed the year's trading gain target.

CORPORATE BANKING GROUP

The past year was a period of consolidation and gearing up for the Corporate Banking Group (CBG). Total CBG loans at year-end 2014 amounted to PHP33.5 billion. This was down slightly from the year-ago level of PHP35.4 billion due mainly to unexpected loan paydowns in the large corporate segment. Without these paydowns, the total CBG loan portfolio would have registered a modest increase.

During the year, CBG pursued financing opportunities, through participations in loan syndications for selected PPP projects and obtained corresponding approvals which were targeted for implementation in 2015. CBG also expanded its credit footprint in the large corporate segment to leverage off the buoyant economic conditions and bright prospects in select sectors, among them, power, construction, infrastructure and real estate. Towards the end of the year, CBG improved its competitive stance by launching the initial 5 offerings in a comprehensive Corporate Internet Banking product suite that is expected to be rolled out in full in the coming year.

CBG ended 2014 with an enhanced market posture and well-poised to face the challenges of 2015.

Board of Directors

Jose T. Pardo

- Independent Director as Chairman, Board of Directors
- Chairman, Corporate Governance Committee
- Chairman, Trust and Investment Committee
- Chairman, Nomination, Compensation & Remuneration Committee

Francis C. Chua

- Independent Director as Vice Chairman, Board of Directors
- Chairman, Executive Committee
- Member, Nomination, Compensation & Remuneration Committee (until October 2014)

Roberto C. Benares

- President & CEO
- Member, Board of Directors
- Vice Chairman, Executive Committee
- Chairman, IT Steering Committee
- Member, Trust and Investment Committee
- Member, Board Risk Oversight Committee

Roman Felipe S. Reyes

- Independent Director as Member, Board of Directors
- Chairman, Audit Committee
- Member, Nomination, Compensation & Remuneration Committee

Aniano A. Desierto

- Independent Director as Member, Board of Directors
- Member, Corporate Governance Committee
- Member, Related Party Transaction Committee

Ramon A. De La Llana

- Member, Board of Directors
- Member, Audit Committee
- Member, Nomination, Compensation & Remuneration Committee
- Member, IT Steering Committee

Amor C. Iliscupidez

- Member, Board of Directors
- Member, Executive Committee
- Member, Trust and Investment Committee
- Member, Nomination, Compensation & Remuneration Committee

Marito L. Platon

- Member, Board of Directors
- Member, Corporate Governance Committee
- Chairman, Board Risk Oversight Committee

Board of Directors

Geoffrey M. Martinez

- Member, Board of Directors
- Member, Executive Committee
- Member, Nomination, Compensation & Remuneration Committee

Melinda Gonzales-Manto

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

Carolina G. Diangco

- Member, Board of Directors
- Member, Executive Committee
- Member, Related Party Transaction Committee

Benedicta D. Baladad

- Member, Board of Directors
- Member, Audit Committee

Francisco H. Villaruz, Jr.

- Member, Board of Directors
- Member, Audit Committee
- Member, Corporate Governance Committee

Fe B. Barin

- Member, Board of Directors
- Member, Corporate Governance Committee
- Member, Board Risk Oversight Committee

Alexander R. Magno

- Member, Board of Directors
- Member, Trust and Investment Committee

Vicente L. Panlilio

- Adviser to the Board of Directors
- Adviser, Board Risk Oversight Committee

Board of Directors

Aurora T. Calderon

- Adviser to the Board of Directors
- Adviser, Audit Committee

Ferdinand K. Constantino

- Adviser to the Board of Directors
- Adviser, Trust & Investment Committee
- Adviser, Nomination, Compensation & Remuneration Committee

Margarito B. Teves

- Adviser to the Board of Directors
- Adviser, Board Risk Oversight Committee

Evita C. Caballa

- Corporate Secretary

Senior Executive Team

Roberto C. Benares
President & Chief Executive Officer

Carmelita R. Araneta
EVP / Operations Group Head

Emmanuel G. Herbosa
EVP / Branch Banking Group Head

Angelica H. Lavares
EVP / Strategic Support Group Head

Felipe Martin F. Timbol
EVP / Treasury Management Group Head

Mary Mildred A. Bernardo
SVP / Credit Group Head

Ricardo A. Coreces
SVP / Corporate Banking Group Head

Joseph C. Justiniano
SVP / Consumer Group Head

Not in photo:
Maximo V. Estrada
SVP / Consumer Group Head (until March 2015)

Aurora C. Manguerra
FVP / Corporate Planning
Division Head

Ma. Elena S. Sarmiento
SVP / Trust Services
Division Head

Bernardo G. Talimban Jr.
FVP / Information
Technology Services
Division Head

Edel Mary D. Vegamora
SVP / Chief Financial Officer &
Controller / FCG Group Head

Victor C. Arboleda
SVP / Chief Compliance
Officer
Adviser

Reginald C. Nery
SVP / Chief Audit
Executive
Adviser

Edward Dennis J. Zshornack
SVP / Chief Risk Officer
Adviser

Alfredo J. Bautista
FVP / Business Systems
Division Head
Secretariat

Products and Services

RETAIL PRODUCTS

- Savings Account with ATM
- Savings Account with Passbook
- Savings Account Plus
- Checking Account
- Complete Checking Account
- US Dollar Savings Account
- Euro Savings Account
- Junior Smart Savers Savings Account
- Premium Savings Account
- Premium Savings Account-Money Market
- Time Deposit
- One-Year Time Deposit
- PHP Future Secure Time Deposit (1, 3 and 5 Years)
- US Dollar Time Deposit
- Euro Time Deposit
- SSS Pension Account
- US Veterans Pension Savings Account (PHP and USD)
- Payroll Savings Account

CONSUMER LOANS

- Home Loan
- Auto Loan
- Salary Loan

CREDIT CARDS

- Bank of Commerce MasterCard

ALTERNATIVE CHANNELS

- Retail Internet Banking
- Corporate Internet Banking
- ATM
- BancNet Internet Banking (BancNet Online)

TRUST PRODUCTS AND SERVICES

- Investment Management Services
- Employee Benefit Trust
- Pre-Need Accounts
- Individual Trust Accounts
- Unit Investment Trust Funds
- Trust under Indenture / Collateral Trust
- Escrow Agency
- Facility / Loan Agency
- Other Institutional Trust / Agency Accounts
- Other Fiduciary Services

TREASURY PRODUCTS

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

CORPORATE BANKING

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

CASH MANAGEMENT AND PAYMENT SERVICES

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

REMITTANCE SERVICES

- Credit to Bank of Commerce Account
- Credit to Accounts with Other Philippine Banks
- Cash Pick-Up via Bank of Commerce Branches
- Cash Pick-Up via Bank of Commerce Payout Partners
- Cash Delivery
- SSS Contributions / Loan Payments
- PhilHealth Contributions
- Pag-IBIG Contributions / Loan Payments
- MoneyGram Cash Pick-up Service
- Trans-Fast Cash Pick-up Service
- Sikap Pinoy OFW Account

Audited Financial Statements

December 31, 2014

Statement of Management's Responsibility for Financial Statements

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

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

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

JOSE T. PARDO
Chairman of the Board

ROBERTO C. BENARES
President and Chief Executive Officer

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

Subscribed and sworn to before me this March 27, 2015, affiants exhibiting their Senior Citizen Identification No., Driver's License No., and Passport No., as follows:

Names	**Identification Nos.**	**Date of Issue**	**Place of Issue**
Jose T. Pardo	Senior Citizen ID No. 1725634	July 31, 2002	Muntinlupa City
Roberto C. Benares	Driver's License No. N14-72-006033	May 20, 2014	Makati City
Edel Mary D. Vegamora	Passport No. EB4805235	February 27, 2012	DFA Manila

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Book No. 1
Series of 2015

Alexander F. Lim
NOTARY PUBLIC FOR MANDALUYONG
APPOINTMENT NO. 0438-15
UNTIL DECEMBER 31,2016
SMPC, 7 ST. FRANCIS ST., MANDALUYONG
PTR#2335816/JANUARY 9, 2015
ILR OR# 099033/JANUARY 13, 2015
ROLL OF ATTORNEYS#59509

Report of Independent Auditors

The Board of Directors and the Stockholders
Bank of Commerce

Report on the Financial Statements

We have audited the accompanying financial statements of Bank of Commerce (the "Bank"), which comprise the statements of financial position as at December 31, 2014 and 2013, 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 (PFRSs) 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with PFRSs.

Other Matter

Our opinion on the December 31, 2013 financial statements dated February 28, 2014 was qualified because the Bank deferred the full recognition of certain losses in line with the Bangko Sentral ng Pilipinas regulatory relief as discussed in Notes 15, 18, and 34 to the financial statements. The Bank has restated its December 31, 2013 financial statements and came up with the Statement of Financial Position as at January 1, 2013 (presented herein as corresponding figures) to fully recognize the deferred losses and impairment losses in accordance with PFRSs as discussed in Note 37 to the financial statements. Accordingly, our opinion on the December 31, 2013 financial statements, as presented herein, is no longer qualified.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 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.

R.G. Manabat & Co.

February 27, 2015
Makati City, Metro Manila

Statements of Financial Position

	Note	December 31 2014	December 31 2013 (As restated - Note 37)	January 1 2013 (As restated - Note 37)
ASSETS				
Cash and Other Cash Items		**P2,325,629,766**	P1,671,990,481	P1,332,509,976
Due from Bangko Sentral ng Pilipinas	*17*	**49,198,853,766**	30,317,427,176	16,601,523,891
Due from Other Banks		**3,548,086,460**	3,873,689,285	2,788,805,569
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	*7*	**5,699,715,902**	2,362,692,236	737,114,265
Financial Assets at Fair Value through Profit or Loss	*8, 36*	**353,207,510**	439,887,130	1,103,767,403
Available-for-Sale Securities - net	*9, 16, 31, 33, 36*	**27,881,239,579**	26,675,350,479	20,168,689,979
Loans and Receivables - net	*10, 16, 31, 33, 36*	**42,839,186,301**	46,003,155,379	40,318,978,872
Non-current Assets Held for Sale	*14*	**221,891,898**	241,742,387	325,830,137
Investment in Associate - net	*11, 16*	**54,613,767**	51,682,341	57,299,913
Property and Equipment - net	*12, 16*			
At cost		**551,095,260**	677,775,893	727,919,804
At appraised values		**1,593,876,999**	1,009,656,688	1,107,274,549
Investment Properties	*13*	**4,572,699,473**	3,862,212,114	4,002,450,463
Deferred Tax Assets - net	*30*	**337,971,391**	227,423,224	-
Other Assets - net	*15, 16*	**1,532,729,652**	1,465,209,629	1,524,141,727
		P140,710,797,724	P118,879,894,442	P90,796,306,548
LIABILITIES AND EQUITY				
Deposit Liabilities	*17, 33*			
Demand		**P19,873,040,729**	P20,376,582,547	P15,390,172,573
Savings		**83,851,463,411**	60,997,383,400	31,232,894,601
Time		**15,861,858,501**	18,916,581,378	19,269,617,763
		119,586,362,641	100,290,547,325	65,892,684,937
Financial Liabilities at Fair Value through Profit or Loss	*8, 36*	**-**	10,880,345	47,534,504
Bills Payable	*18*	**827,621**	271,287,876	1,433,558,217
Manager's Checks and Acceptances Payable		**544,153,494**	305,412,287	371,965,948
Accrued Interest, Taxes and Other Expenses	*19*	**836,832,035**	820,291,170	758,665,728
Deferred Tax Liabilities - net	*30*	**-**	-	309,124,922
Other Liabilities	*20*	**2,565,865,612**	2,741,720,494	6,694,714,644
Total Liabilities		**123,534,041,403**	104,440,139,497	75,508,248,900

Forward

	Note	**December 31 2014**	December 31 2013 (As restated - Note 37)	January 1 2013 (As restated - Note 37)
Equity				
Capital stock	*22*	**P11,224,111,200**	P11,224,111,200	P11,224,111,200
Paid-in surplus	*22*	**8,748,529,687**	8,748,529,687	8,748,529,687
Surplus reserves	*23*	**142,211,945**	137,798,908	131,741,182
Deficit	*37*	**(3,600,050,151)**	(4,932,158,043)	(6,019,334,765)
Revaluation increment on property	*12*	**488,637,661**	32,646,039	38,709,472
Net unrealized gains (losses) on available-for-sale securities	*9, 36*	**447,296,136**	(576,891,214)	1,363,484,048
Remeasurement losses on retirement plan	*27*	**(254,936,675)**	(181,976,206)	(212,812,973)
Share in other comprehensive (loss) income of associate	*11*	**(303,744)**	(220,761)	633,174
Cumulative translation adjustment		**(18,739,738)**	(12,084,665)	12,996,623
Total Equity		**17,176,756,321**	14,439,754,945	15,288,057,648
		P140,710,797,724	P118,879,894,442	P90,796,306,548

See Notes to the Financial Statements.

Statements of Income

	Note	2014	2013 (As restated - Note 37)
		Years Ended December 31	
INTEREST INCOME			
Loans and receivables	*10, 33, 36*	**P2,607,816,925**	P2,211,566,601
Trading and investment securities	*24, 36*	**1,495,779,305**	1,317,360,277
Due from Bangko Sentral ng Pilipinas and other banks	*17*	**337,552,957**	160,040,247
Interbank loans receivable and securities purchased under resale agreements	*7*	**11,978,671**	19,834,012
		4,453,127,858	3,708,801,137
INTEREST EXPENSE			
Deposit liabilities	*17, 33*	**964,849,221**	882,452,445
Bills payable and other borrowings	*18*	**755,515**	52,284,466
		965,604,736	934,736,911
NET INTEREST INCOME		**3,487,523,122**	2,774,064,226
OTHER INCOME			
Fair value gain from investment properties	*13*	**343,294,404**	42,856,580
Trading and investment securities gains - net	*26*	**322,329,037**	1,857,982,513
Service charges, fees and commissions	*25*	**262,973,952**	402,749,888
Gains on foreclosure, and sale of property and equipment and foreclosed assets - net	*12, 13, 14*	**216,945,380**	130,402,051
Foreign exchange gains - net		**14,142,972**	7,138,964
Miscellaneous	*13, 28, 33*	**132,334,272**	170,174,451
		1,292,020,017	2,611,304,447
OTHER EXPENSES			
Compensation and fringe benefits	*27, 33*	**1,367,701,128**	1,400,238,285
Rent and utilities	*28*	**608,752,617**	618,114,184
Taxes and licenses	*30*	**577,926,829**	530,847,370
(Recovery from) provision for credit and impairment losses	*9, 10, 11, 12, 15,16, 34*	**(415,626,919)**	262,465,263
Depreciation and amortization	*12*	**248,294,281**	281,585,126
Insurance		**217,117,575**	168,500,000
Amortization of software costs	*15*	**97,346,489**	71,627,308
Management and professional fees		**81,131,853**	59,412,876
Miscellaneous	*29*	**590,408,779**	660,659,364
		3,373,052,632	4,053,449,776
INCOME BEFORE SHARE IN NET INCOME (LOSS) OF ASSOCIATE AND INCOME TAX		**1,406,490,507**	1,331,918,897
SHARE IN NET INCOME (LOSS) OF ASSOCIATE	*11*	**883,229**	(4,763,637)
INCOME BEFORE INCOME TAX		**1,407,373,736**	1,327,155,260
INCOME TAX EXPENSE	*30*	**77,197,629**	242,582,859
NET INCOME		**P1,330,176,107**	P1,084,572,401

See Notes to the Financial Statements.

Statements of Comprehensive Income

	Note	2014	2013 (As restated - Note 37)
		Years Ended December 31	
NET INCOME		**P1,330,176,107**	P1,084,572,401
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may not be reclassified to profit or loss			
Net change in revaluation increment on property	*12*	**462,336,444**	2,598,614
Net change in remeasurement (loss) gain on retirement plan	*27*	**(72,960,469)**	30,836,767
		389,375,975	33,435,381
Items that may be reclassified to profit or loss			
Change in net unrealized gain (loss) of available-for-sale securities	*9*	**1,024,187,350**	(1,940,375,262)
Net movement in cumulative translation adjustment		**(6,655,073)**	(25,081,288)
Net change in other comprehensive loss of associate	*11*	**(82,983)**	(853,935)
		1,017,449,294	(1,966,310,485)
		1,406,825,269	(1,932,875,104)
TOTAL COMPREHENSIVE INCOME (LOSS)		**P2,737,001,376**	(P848,302,703)

See Notes to the Financial Statements.

BANK OF COMMERCE
STATEMENTS OF CHANGES IN EQUITY

	Note	Capital Stock (Note 22)	Paid-in Surplus (Note 22)	Surplus Reserves (Note 23)	Deficit (Note 37)	Revaluation Increment on Property (Note 12)	Net Unrealized Gains (Losses) on Available-for-Sale Securities (Note 9)	Remeasurement Losses on Retirement Plan (Note 27)	Share in Other Comprehensive Loss of Associate (Note 11)	Cumulative Translation Adjustment	Total Equity
Balance as at December 31, 2013, as previously reported		P11,224,111,200	P8,748,529,687	P137,798,908	(P2,674,765,582)	P32,646,039	(P576,891,214)	(P181,976,206)	(P220,761)	(P12,084,665)	P16,697,147,406
Prior period adjustments	37	-	-	-	(2,257,392,461)	-	-	-	-	-	(2,257,392,461)
Balance as at December 31, 2013, as restated		11,224,111,200	8,748,529,687	137,798,908	(4,932,158,043)	32,646,039	(576,891,214)	(181,976,206)	(220,761)	(12,084,665)	14,439,754,945
Net income for the year		-	-	-	1,330,176,107	-	-	-	-	-	1,330,176,107
Other comprehensive income:											
Changes in fair value of available-for-sale (AFS) securities		-	-	-	-	-	1,214,687,688	-	-	-	1,214,687,688
Changes in fair value of AFS securities taken to profit or loss		-	-	-	-	-	(190,500,338)	-	-	-	(190,500,338)
Net movement in cumulative translation adjustment		-	-	-	-	-	-	-	-	(6,655,073)	(6,655,073)
Increase in value of land and building net of deferred tax liability		-	-	-	-	462,336,444	-	-	-	-	462,336,444
Change in remeasurement loss on retirement plan		-	-	-	-	-	-	(72,960,469)	-	-	(72,960,469)
Net change in other comprehensive loss of associate		-	-	-	-	-	-	-	(82,983)	-	(82,983)
Total comprehensive income for the year		-	-	-	1,330,176,107	462,336,444	1,024,187,350	(72,960,469)	(82,983)	(6,655,073)	2,737,001,376
Appropriation of surplus for trust business	23	-	-	4,413,037	(4,413,037)	-	-	-	-	-	-
Transfer of revaluation increment realized through depreciation		-	-	-	6,344,822	(6,344,822)	-	-	-	-	-
		-	-	4,413,037	1,931,785	(6,344,822)	-	-	-	-	-
Balance as at December 31, 2014		P11,224,111,200	P8,748,529,687	P142,211,945	(P3,600,050,151)	P488,637,661	P447,296,136	(P254,936,675)	(P303,744)	(P18,739,738)	P17,176,756,321

Forward

	Note	Capital Stock (Note 22)	Paid-in Surplus (Note 22)	Surplus Reserves (Note 23)	Deficit (Note 37)	Revaluation Increment on Property (Note 12)	Net Unrealized Gains (Losses) on Available-for-Sale Securities (Note 9)	Remeasurement Losses on Retirement Plan (Note 27)	Share in Other Comprehensive Income (Loss) of Associate (Note 11)	Cumulative Translation Adjustment	Total Equity
Balance as at January 1, 2013, as previously reported		P11,224,111,200	P8,748,529,687	P131,741,182	(P3,365,227,271)	P38,709,472	P1,363,484,048	(P212,812,973)	P633,174	P12,996,623	P17,942,165,142
Prior period adjustments	37	-	-	-	(2,654,107,494)	-	-	-	-	-	(2,654,107,494)
Balance as at January 1, 2013, as restated		11,224,111,200	8,748,529,687	131,741,182	(6,019,334,765)	38,709,472	1,363,484,048	(212,812,973)	633,174	12,996,623	15,288,057,648
Net income for the year		-	-	-	1,084,572,401	-	-	-	-	-	1,084,572,401
Other comprehensive loss:											
Changes in fair value of available-for-sale (AFS) securities		-	-	-	-	-	(240,398,815)	-	-	-	(240,398,815)
Changes in fair value of AFS securities taken to profit or loss		-	-	-	-	-	(1,699,976,447)	-	-	-	(1,699,976,447)
Net movement in cumulative translation adjustment		-	-	-	-	-	-	-	-	(25,081,288)	(25,081,288)
Related tax effect on revaluation increment realization		-	-	-	-	2,598,614	-	-	-	-	2,598,614
Change in remeasurement loss on retirement plan		-	-	-	-	-	-	30,836,767	-	-	30,836,767
Net change in other comprehensive income of associate		-	-	-	-	-	-	-	(853,935)	-	(853,935)
Total comprehensive loss for the year		-	-	-	1,084,572,401	2,598,614	(1,940,375,262)	30,836,767	(853,935)	(25,081,288)	(848,302,703)
Appropriation of surplus for trust business	23	-	-	6,057,726	(6,057,726)	-	-	-	-	-	-
Transfer of revaluation increment realized through depreciation		-	-	-	8,662,047	(8,662,047)	-	-	-	-	-
		-	-	6,057,726	2,604,321	(8,662,047)	-	-	-	-	-
Balance as at December 31, 2013		P11,224,111,200	P8,748,529,687	P137,798,908	(P4,932,158,043)	P32,646,039	(P576,891,214)	(P181,976,206)	(P220,761)	(P12,084,665)	P14,439,754,945

See Notes to the Financial Statements.

Statements of Cash Flows

	Note	2014	2013 (As restated - Note 37)
		Years Ended December 31	
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P1,407,373,736**	P1,327,155,260
Adjustments for:			
(Recovery from) provision for credit and impairment losses	*16*	**(415,626,919)**	262,465,263
Fair value gain from investment properties	*13*	**(343,294,404)**	(42,856,580)
Depreciation and amortization	*12*	**248,294,281**	281,585,126
Gain on foreclosure, and sale of property and equipment and foreclosed assets - net	*12, 13, 14*	**(216,945,380)**	(130,402,050)
Gain on sale of available-for-sale securities	*9, 26*	**(190,500,338)**	(1,699,976,447)
Amortization of software costs	*15*	**97,346,489**	71,627,308
Unrealized loss (gain) on financial assets and liabilities at fair value through profit or loss	*26*	**(5,219,373)**	18,468,850
Loss on sale of held-to-maturity investments	*9*	**3,739,635**	-
Share in net loss (income) of associate	*11*	**(883,229)**	4,763,637
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Financial assets at fair value through profit or loss		**81,018,647**	608,757,264
Loans and receivables		**3,324,818,689**	(5,409,550,056)
Other assets		**(91,594,116)**	(31,051,476)
Increase (decrease) in:			
Deposit liabilities		**19,295,815,316**	34,397,862,388
Manager's checks and acceptances payable		**238,741,206**	(66,553,661)
Accrued interest, taxes and other expenses		**(1,239,639)**	48,488,821
Other liabilities		**(197,835,789)**	(3,903,866,879)
Net cash generated from operations		**23,234,008,812**	25,736,916,768
Income taxes paid		**(365,390,274)**	(280,918,410)
Net cash provided by operating activities		**22,868,618,538**	25,455,998,358
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale or redemption of:			
Available-for-sale securities		**91,541,154,539**	21,503,676,196
Held-to-maturity investments	*9*	**246,186,128**	-
Non-current assets held for sale		**106,972,000**	199,112,750
Property and equipment		**99,724,661**	173,924,630
Investment properties		**90,967,968**	184,342,278
Additions to:			
Available-for-sale securities		**(84,551,261,057)**	(29,085,555,886)
Held-to-maturity investments	*9*	**(7,225,801,102)**	-
Investment properties		**(144,225,924)**	(9,427,330)
Property and equipment		**(129,315,857)**	(282,357,245)
Deferred software costs		**(79,417,850)**	(186,516,645)
Net cash used in investing activities		**(45,016,494)**	(7,502,801,252)

Forward

		Years Ended December 31	
	Note	**2014**	2013 (As restated - Note 37)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bills payable	*18*	**(P270,460,255)**	(P1,162,270,341)
Net cash used in financing activities		**(270,460,255)**	(1,162,270,341)
Effect of exchange rate differences		**(6,655,073)**	(25,081,288)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**22,546,486,716**	16,765,845,477
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**1,671,990,481**	1,332,509,976
Due from Bangko Sentral ng Pilipinas		**30,317,427,176**	16,601,523,891
Due from other banks		**3,873,689,285**	2,788,805,569
Interbank loans receivable		**2,362,692,236**	737,114,265
		38,225,799,178	21,459,953,701
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items		**2,325,629,766**	1,671,990,481
Due from Bangko Sentral ng Pilipinas		**49,198,853,766**	30,317,427,176
Due from other banks		**3,548,086,460**	3,873,689,285
Interbank loans receivable		**5,699,715,902**	2,362,692,236
		P60,772,285,894	P38,225,799,178
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received		**P4,553,373,562**	P3,681,846,598
Interest paid		**965,039,438**	956,412,530

See Notes to the Financial Statements.

Notes to the Financial Statements

1. Reporting Entity

Bank of Commerce (the "Bank") is a domestic corporation registered with the Philippine Securities and Exchange Commission (SEC) on 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 branch to Main Office Branch. Subsequently on February 25, 2011, upon receipt of the related SEC approval of its amended Articles of Incorporation and amended By-laws reflecting this change, the Bank's principal place of business was changed from Phil. First Building, 6764 Ayala Avenue, Makati City to San Miguel Properties Centre, No. 7, St. Francis Street, Mandaluyong City. The Bank has a total of 125 and 122 branches nationwide as at December 31, 2014 and 2013, respectively.

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

The financial statements of the Bank as at and for the year ended December 31, 2014 were approved and authorized for issue by the BOD on February 27, 2015.

2. Basis of Preparation

Statement of Compliance

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

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

Functional and Presentation Currency
The accompanying financial statements include accounts maintained in the Regular Banking Unit (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 of asset or settlement of liability within twelve (12) months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 21.

3. Summary of Accounting Policies

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

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Bank has adopted the following amendments to standards and interpretations starting January 1, 2014 and accordingly changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards and interpretations did not have any significant impact on the Bank's financial statements.

- *Offsetting Financial Assets and Financial Liabilities (Amendments to PAS 32, Financial Instruments: Presentation).* 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; and

    - 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.

- *Recoverable Amount Disclosures for Non-financial Assets (Amendments to PAS 36, Impairment of Assets).* These narrow-scope amendments to PAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments clarified that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

- *Philippine Interpretation IFRIC 21, Levies*. This interpretation provides guidance on accounting for levies in accordance with the requirements of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation confirms that an entity recognizes a liability for a levy when, and only when, the triggering event specified in the legislation occurs. An entity does not recognize a liability at an earlier date even if it has no realistic opportunity to avoid the triggering event. Other standards should be applied to determine whether the debit side is an asset or expense. Outflows within the scope of PAS 12, *Income Taxes*, fines and penalties, and liabilities arising from emission trading schemes are explicitly excluded from the scope.

<u>Change in Accounting Policy</u>
Effective January 1, 2014, the Bank changed the measurement policy of its investment properties from the cost model to the fair value model.

Under the cost model, investment properties are valued at cost upon acquisition and are subsequently carried at its cost less any accumulated depreciation and any accumulated impairment losses. In accordance with the fair value model, the Bank will value its investment properties at their fair values at reporting date and the related changes in fair values of their properties will be recognized in the statements of income. The Bank believes that using the fair value model will provide reliable presentation of assets in the statements of financial position.

Under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* the change in measurement policy is accounted for on a retroactive basis and resulted in decrease in deficit of P1.0 billion, net of tax, as at January 1, 2013 and decrease in net income of P29.7 million in 2013 (refer to Note 37).

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

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 transaction. The foreign currency-denominated assets and liabilities at the reporting dates are translated into USD using the Philippine Dealing System (PDS) closing rate at the reporting date.

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

Thus, in accordance with Manual of Regulations for Banks (MORB) and BSP Circular 691 issued on June 23, 2010, the exchange differences arising from translation (i.e., PDSWAR vs. PDS closing rate) of FCDU accounts to PHP are taken directly to OCI under "Net movement in cumulative translation adjustment" in the statements of comprehensive income. Exchange differences arising from restatements of foreign currency-denominated assets and liabilities of the RBU are credited to or charged against operations in the year in which the rates change.

As at December 31, 2014 and 2013, cumulative translation adjustment of P18.7 million and P12.1 million, respectively, was recognized in the statements of financial position and statements of changes in equity.

Financial Instruments

Date of Recognition

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

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

Initial Recognition of Financial Instruments

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

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

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

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

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

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

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

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

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

For hedge accounting purposes, hedges are classified primarily as either: a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge). In 2014 and 2013, the Bank did not apply hedge accounting treatment for any of 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 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 in the statements of income when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL, when their economic risks and characteristics are not closely related to those of their respective host contracts, and when a separate instrument with the same terms as the embedded derivatives would meet the definition of a derivative. The Bank assesses whether embedded derivatives are required to be separated from the host contracts when the Bank first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

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

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

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

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

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

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

There are no designated financial assets and financial liabilities at FVPL as at December 31, 2014 and 2013.

HTM Investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank’s management has the positive intention and ability to hold to maturity. Where the Bank reclassifies or sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. The Bank would then be unable to categorize financial instruments as HTM investments for the next two (2) years.

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

As discussed in Note 9, the Bank has tainted its HTM investments in 2014. The tainting rule under PAS 39, *Financial Instruments: Recognition and Measurement* prohibits the Bank from designating securities to HTM in the 2 succeeding financial years 2015 and 2016.

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

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

When the estimated cash flows from the financial assets are revised, the carrying amount of the financial asset shall be adjusted to reflect the actual and revised estimated cash flows. The carrying amount shall be computed as the present value of estimated future cash flows at the financial instrument's original EIR, or, when applicable, the revised EIR. Any difference shall be recognized as "(Recovery from) provision for credit and impairment losses" in the 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 (GS), 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 statements of income. The impact of revaluation on foreign currency-denominated AFS debt securities is also reported in the statements of income. The unrealized gains and losses arising from the fair valuation of AFS securities are excluded, net of tax, from statements of income and reported as OCI and presented under "Net unrealized 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 (1) investment in the same security, these are deemed to be disposed on a first-in first-out basis. Interest earned on holding AFS debt securities are reported as part of "Interest income on trading and investment securities" in the statements of income using the effective interest method. Dividends earned on holding AFS equity securities are recognized in 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 "(Recovery from) provision for credit and impairment losses" in the statements of income.

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

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

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

Government Loans with Low Interest Rates
Government loans with low interest rates such as those 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 statements of income 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 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 statements of income.

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

‘Day 1’ Difference

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

Offsetting

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

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

Cash and Cash Equivalents

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

COCI consist of cash on hand and checks and other cash items. Cash on hand refers to the total amount of cash in the Bank's vault in the form of notes and coins under the custody of the cashier/cash custodian or treasurer, including notes in the possession of tellers and those kept in automated teller machines (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 guarantee 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 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 Management and Consultancy, Inc. (formerly Bancommerce Investment Corporation) (BIC) represents 24.25% of BIC's capital stock. Accordingly, the Bank's equity investment in BIC is treated as an investment in an associate accounted for under the equity method of accounting.

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

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

Property and Equipment

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

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

If the carrying amount of land and building is decreased as a result of a revaluation, the decrease shall be recognized in statements of income. However, the decrease shall be recognized in OCI to the extent of any credit balance existing in the revaluation increment on property. The decrease recognized in OCI 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 - 7
Leasehold improvements	5 - 15

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

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

Investment Properties

Investment properties are composed of assets acquired from foreclosure or dacion en pago, and are initially measured at cost including transaction costs. An investment property acquired through an exchange transaction is 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 fair value, which reflects the prevailing market conditions at the reporting date. Gains or losses resulting from the changes in the fair values of investment properties are recognized under "Fair value gain from investment properties" account in the statements of income in the period in which they arise. Fair value is determined by reference to market based evidences. The valuations performed by the appraisers are based on active market prices, adjusted for any difference in the nature, location or condition of the specific property.

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

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

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

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 statements of income in the period when the expenditure is incurred.

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

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

Software Costs

Software costs (classified under "Other assets" account (see Note 15) 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 5 years. Software costs are carried at cost less accumulated amortization and any impairment in value.

Non-current Assets Held for Sale

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

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

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

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

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

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

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

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

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

Income Recognition

Income is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognized:

Interest Income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS securities and HTM investments, 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 statements of income 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 financial 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 loan participation fees, 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 statements of income on a straight-line basis over the term of the lease.

Cost and Expense Recognition

Cost and expenses are recognized in statements of income upon utilization of the service or at the date these are incurred. Interest expense is recognized in statements of income 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 annual actuarial calculations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions

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

Contingent Assets and Contingent Liabilities

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

Related Parties

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

Events After the Reporting Date

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

Fiduciary Activities

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

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014. The Bank has not applied the following new or amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements except for PFRS 9, *Financial Instruments*.

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 July 1, 2014

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

  - *Measurement of short-term receivables and payables (Amendment to PFRS 13, Fair Value Measurement).* The amendment clarifies that, in issuing PFRS 13 and making consequential amendments to PAS 39 and PFRS 9, the intention is not to prevent entities from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial.

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

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

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

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

To be Adopted on January 1, 2016

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

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

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

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

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

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

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

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

The amendment to PFRS 5 is applied prospectively in accordance with PAS 8 to changes in methods of disposal that occur on or after January 1, 2016.

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

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

- *Discount rate in a regional market sharing the same currency - e.g. the Eurozone (Amendments to PAS 19, Employee Benefits).* The amendments to PAS 19 clarify that high-quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid. Consequently, the depth of the market for high-quality corporate bonds should be assessed at the currency level and not at the country level.

  The amendment to PAS 19 is applied from the beginning of the earliest comparative period presented in the first financial statements in which the entity applies the amendment, with any initial adjustment recognized in retained earnings at the beginning of that period.

To be Adopted on January 1, 2018

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

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

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

4. Critical Judgments and Estimates

The preparation of financial statements in conformity with PFRSs 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) Contingencies

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

(e) Operating Leases

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

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

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

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

The Bank treats AFS equity securities as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Bank treats "significant" generally as 20% or more of the original cost of the investment, and "prolonged" if greater than six (6) months.

As at December 31, 2014 and 2013, the required allowance for impairment losses on AFS equity securities amounted to P340.2 million and P345.6 million, respectively (see Notes 9 and 16). As at December 31, 2014 and 2013, AFS equity securities amounted to P142.3 million and P144.4 million, respectively (see Note 9).

As at December 31, 2014 and 2013, the required allowance for impairment losses on AFS debt securities amounted to nil and P352.3 million, respectively (see Notes 9 and 16). As at December 31, 2014 and 2013, AFS debt securities amounted to P27.7 billion and P26.5 billion, respectively (see Note 9).

As at December 31, 2014 and 2013, the carrying value of AFS securities of the Bank amounted to P27.9 billion and P26.7 billion, respectively (see Note 9).

(b) *Impairment and Credit Losses on Loans and Receivables*

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

As at December 31, 2014 and 2013, required allowance for credit losses on loans and receivables amounted to P2.7 billion and P3.8 billion, respectively (see Notes 10 and 16). The carrying value of loans and receivables amounted to P42.8 billion and P46.0 billion as at December 31, 2014 and 2013, respectively (see Note 10).

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

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

(c) Recognition of Deferred Tax Assets

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

The estimates of future taxable income indicate that certain temporary differences will be realized in the future. As discussed in Note 30 to the financial statements, the Bank recognized deferred tax assets amounting to P1.1 billion and P0.7 billion as at December 31, 2014 and 2013, respectively.

Based on management's expectation of its future taxable income, the Bank did not recognize deferred tax assets on certain portion of allowance for impairment and credit losses, NOLCO, MCIT and other temporary differences totaling P1.1 billion and P1.8 billion as at December 31, 2014 and 2013, respectively (see Note 30).

(d) Impairment of Nonfinancial Assets

<u>Property and Equipment, Non-current Assets Held for Sale and Software Costs</u>
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 at December 31, 2014 and 2013, the combined carrying value of the property and equipment, non-current assets held for sale and software costs amounted to P2.8 billion and P2.4 billion, respectively (see Notes 12, 14 and 15).

(e) Estimated Useful Lives of Property and Equipment 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 computer software.

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

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

The fair value of investment properties and the appraised value of land and building are disclosed in Notes 12 and 13, respectively.

(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, future salary increases and mortality rates. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the prevailing market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at reporting date. The present value of the Bank's retirement obligation amounted to P747.8 million and P627.3 million as at December 31, 2014 and 2013, respectively (see Note 27). As at December 31, 2014 and 2013, the net retirement liability of the Bank amounted to P178.1 million and P134.0 million, respectively (see Note 27) (included under "Other liabilities" account in Note 20 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 risk.

BOD

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

Corporate Governance Committee

The Corporate Governance Committee is tasked with managing the process of evaluating the BOD as a whole, as well as the individual members.

Related Party Transactions Committee (RPTCom)

The RPTCom, established and approved by the BOD in April 2014, shall assist the BOD in fulfilling its corporate governance responsibility related to the safety and soundness of the Bank's financial transaction/s with related parties as defined in the Bank's policy, and ensure that such are conducted at arm's length terms and conditions.

Audit Committee

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

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

Derivative Financial Instruments

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

Credit-related Commitment Risks

The Bank makes available to its customers guarantees which may require 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 for receivables from customers and sales contract receivables net of unearned interest income and allowance for credit losses, before and after collateral to credit risk as at December 31, 2014 and 2013:

	December 31, 2014		December 31, 2013	
	Maximum Exposure		Maximum Exposure	
	Before Collateral	**After Financial Effect of Collateral or Credit Enhancement**	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
Receivables from customers:				
Term loans	**P34,238,696,368**	**P27,978,963,655**	P37,528,925,491	P30,319,040,159
Direct advances	**709,003,210**	**102,413,425**	648,148,328	124,195,834
Bills purchased, import bills and trust receipts	**1,416,907,927**	**1,379,315,720**	1,832,402,011	1,795,093,929
Agri-agra loans	**337,411,805**	**306,948,699**	331,395,925	288,535,307
Others	**4,008,261,213**	**2,361,981,231**	3,225,987,285	2,186,511,601
	40,710,280,523	**32,129,622,730**	43,566,859,040	34,713,376,830
Sales contracts receivable	**1,153,994,843**	**1,553,512**	1,271,385,348	1,556,036
	P41,864,275,366	**P32,131,176,242**	P44,838,244,388	P34,714,932,866

As at December 31, 2014 and 2013, fair value of collateral held for loans and receivables amounted to P15.7 billion and P18.3 billion, respectively.

For the other financial assets, the carrying amounts represent the maximum exposure to credit risk as at December 31, 2014 and 2013.

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

The main types of collateral obtained are as follows:

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

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

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

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

<u>Excellent - BRR 1</u>
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.

<u>Strong - BRR 2</u>
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.

<u>Good - BRR 3</u>
These are loans which cover smaller corporations with access to public markets or alternative financial markets, quite low probability of default, susceptible to cyclical changes and more concentration of business risk by product or market, profitable for the last 3 years, no history of payment default in the last 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
These are loans to borrowers whose risk qualities are still acceptable but exhibit weaknesses. Start-up companies are also automatically rated as Watchlist.

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

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

Substandard - BRR 8
These are loans or portions thereof which involve a substantial and unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. There is a possibility of future loss to the Bank unless given closer supervision. These are also loans not necessarily past due but with well defined weaknesses that jeopardize liquidation. Weaknesses include adverse trend or development of financial, managerial, economic or political nature or a significant weakening of the fair value of the collateral.

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

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

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

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

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

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

	December 31, 2013			
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	P40,672,885	P36,553,809	P25,292,235	P102,518,929
Past due but not impaired	272,145	-	-	272,145
Impaired	8,817,664	-	2,520,921	11,338,585
Gross	49,762,694	36,553,809	27,813,156	114,129,659
Less allowance for credit losses	3,759,539	-	697,918	4,457,457
Net	P46,003,155	P36,553,809	P27,115,238	P109,672,202

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

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

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

	December 31, 2013					
	Neither Past Due nor Individually Impaired					
	High Grade	Standard Grade	Substandard	Unrated	Past Due or Impaired	Total
Loans and receivables:						
Receivable from customers	P6,871,743	P19,163,848	P9,008,752	P4,291,146	P6,126,354	P45,461,843
Sales contracts receivable	-	-	-	859,986	412,955	1,272,941
Unquoted debt securities	-	-	-	-	1,361,552	1,361,552
Accrued interest receivable	-	-	-	606,275	333,107	939,382
Accounts receivable	-	-	-	-	851,245	851,245
RCOCI	-	-	-	-	4,595	4,595
	P6,871,743	P19,163,848	P9,008,752	P5,757,407	P9,089,808	P49,891,558

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

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

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

	December 31, 2013		
	AA - A	Below BBB or Unrated	Total
Loans and advances to banks:			
Due from BSP	P -	P30,317,427,176	P30,317,427,176
Due from other banks	3,556,292,600	317,396,685	3,873,689,285
Interbank loans receivable and SPURA	2,362,692,236	-	2,362,692,236
	5,918,984,836	30,634,823,861	36,553,808,697
Financial assets at FVPL:			
Government securities held for trading	-	413,295,075	413,295,075
Derivative assets*	2,757,018	22,397,500	25,154,518
Other debt securities	-	1,437,537	1,437,537
	2,757,018	437,130,112	439,887,130
AFS securities - gross:			
Quoted government securities	-	22,457,588,614	22,457,588,614
Quoted other debt securities	1,439,543,608	258,880,564	1,698,424,172
Unquoted debt securities	2,727,218,061	-	2,727,218,061
Quoted equity securities	-	146,737,431	146,737,431
Unquoted equity securities	-	343,300,398	343,300,398
	4,166,761,669	23,206,507,007	27,373,268,676
Loans and receivables - gross:			
Unquoted debt securities	975,550,683	386,001,151	1,361,551,834
	975,550,683	386,001,151	1,361,551,834
	P11,064,054,206	P54,664,462,131	P65,728,516,337

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

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

	2014	2013
Term loans	**P1,328,468,181**	P1,704,579,491
Others	**798,415**	21,346,596
	P1,329,266,596	P1,725,926,087

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

	December 31, 2013			
	1-30 Days	31-60 Days	61-90 Days	Total
Receivable from customers (gross):				
Direct advances	P1,459,285	P -	P -	P1,459,285
Term loans	407,156	6,379,575	-	6,786,731
Agri-agra loans	-	49,000,000	-	49,000,000
Others	47,269,900	37,043,433	26,222,691	110,536,024
Sales contracts receivable	8,396,923	14,732,740	81,233,064	104,362,727
	P57,533,264	P107,155,748	P107,455,755	P272,144,767

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 ninety (90) days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in 2 areas: individually assessed allowances and collectively assessed allowances.

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

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

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

Credit risk-weighted assets as at December 31, 2014 and 2013 as reported to the BSP follows (amounts in thousands):

	2014	2013
Risk-weighted on-balance sheet assets	**P58,881,597**	P58,535,649
Risk-weighted off-balance sheet assets	**337,661**	372,915
Counterparty risk-weighted assets in the trading book	**-**	107,501
Total gross risk-weighted assets	**59,219,258**	59,016,065
General loan loss provision (in excess of the amount permitted to be included in Upper Tier 2)	**(64,229)**	-
	P59,155,029	P59,016,065

The Bank's credit risk-weighted exposures arising from on-balance sheet assets amounting to P58.9 billion contribute 99.5% of the credit exposures of the Bank. Credit risk-weighted off-balance sheet assets amounting to P0.3 billion make up the remainder. The off-balance sheet assets, consisting mainly of direct substitutes, e.g., guarantees and financial standby LCs, and transaction and trade-related contingencies, are weighted at 100%.

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

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

	December 31, 2014								
				Risk Weights					
	Exposures, Net of Specific Provisions	Exposures Covered by Credit Risk Mitigation (CRM), Gross of Materiality threshold	Exposures not Covered by CRM	0%	20%	50%	100%	150%	Total
Cash on hand	P2,173,268	P -	P2,173,268	P2,173,268	P -	P -	P -	P -	P2,173,268
COCI	152,362	-	152,362	-	152,362	-	-	-	152,362
Due from BSP	49,203,400	-	49,203,400	49,203,400	-	-	-	-	49,203,400
Due from other banks	7,980,004	-	7,980,004	-	210,313	7,589,753	179,938	-	7,980,004
AFS Securities	27,197,892	-	27,197,892	16,851,959	3,565,390	6,594,330	186,213	-	27,197,892
Loans and receivables	41,467,481	703,741	40,763,740	-	1,259,727	675,155	38,381,236	447,622	40,763,740
Sales contracts receivable	1,135,395	-	1,135,395	-	-	-	710,365	425,030	1,135,395
Real and Other Properties Acquired (ROPA)	2,386,634	-	2,386,634	-	-	-	-	2,386,634	2,386,634
Total exposures, excluding other assets	131,696,436	703,741	130,992,695	68,228,627	5,187,792	14,859,238	39,457,752	3,259,286	130,992,695
Other assets	6,067,585	-	6,067,585	-	-	-	6,067,585	-	6,067,585
Total exposures, including other assets	P137,764,021	P703,741	P137,060,280	P68,228,627	P5,187,792	P14,859,238	P45,525,337	P3,259,286	P137,060,280
Total risk-weighted on-balance Sheet assets not covered by CRM					P1,037,559	P7,429,619	P45,525,335	P4,888,930	P58,881,443
Total risk-weighted on-balance sheet assets covered by CRM					154	-	-	-	154
Total risk-weighted on-balance sheet assets					P1,037,713	P7,429,619	P45,525,335	P4,888,930	P58,881,597

	December 31, 2013								
				Risk Weights					
	Exposures, Net of Specific Provisions	Exposures Covered by Credit Risk Mitigation (CRM), Gross of Materiality threshold	Exposures not Covered by CRM	0%	20%	50%	100%	150%	Total
Cash on hand	P1,655,820	P -	P1,655,820	P1,655,820	P -	P -	P -	P -	P1,655,820
COCI	16,170	-	16,170	-	16,170	-	-	-	16,170
Due from BSP	30,224,771	-	30,224,771	30,224,771	-	-	-	-	30,224,771
Due from other banks	6,142,718	-	6,142,718	-	235,205	5,788,761	118,752	-	6,142,718
AFS Securities	28,246,677	-	28,246,677	20,185,178	1,341,413	6,456,779	263,307	-	28,246,677
UDSCL	10,522	-	10,522	-	-	-	10,522	-	10,522
Loans and receivables	42,382,786	1,865,898	40,516,888	-	93,673	592,180	39,247,660	583,375	40,516,888
Sales contracts receivable	1,258,785	-	1,258,785	-	-	-	877,666	381,119	1,258,785
Real and Other Properties Acquired (ROPA)	1,975,195	-	1,975,195	-	-	-	-	1,975,195	1,975,195
Total exposures, excluding other assets	111,913,444	1,865,898	110,047,546	52,065,769	1,686,461	12,837,720	40,517,907	2,939,689	110,047,546
Other assets	6,851,852	-	6,851,852	-	-	-	6,851,852	-	6,851,852
Total exposures, including other assets	P118,765,296	P1,865,898	P116,899,398	P52,065,769	P1,686,461	P12,837,720	P47,369,759	P2,939,689	P116,899,398
Total risk-weighted on-balance Sheet assets not covered by CRM					P337,293	P6,418,858	P47,369,760	P4,409,534	P58,535,445
Total risk-weighted on-balance sheet assets covered by CRM					204	-	-	-	204
Total risk-weighted on-balance sheet assets					P337,497	P6,418,858	P47,369,760	P4,409,534	P58,535,649

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

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

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

	December 31, 2013					
	Guaranteed Portion	Total Exposures Covered by CRM	Risk Weights 0%	Risk Weights 20%	Total	Total exposures Covered by CRM, Gross of Materiality Threshold
Loans and Receivables						
Government corporations	P1,100,000	P1,100,000	P1,100,000	P -	P1,100,000	P1,100,000
Private corporations	398,438	398,438	397,416	1,022	398,438	398,438
Loans to individuals for consumption and other purposes	367,460	367,460	367,460	-	367,460	367,460
Total exposures covered by CRM	P1,865,898	P1,865,898	P1,864,876	P1,022	P1,865,898	P1,865,898
Risk-weighted on-balance sheet assets covered by CRM				P204	P204	

Liquidity Risk and Funding Management

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

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

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

Analysis of Financial Liabilities by Remaining Contractual Maturities
The table below summarizes the maturity profile of the Bank's financial liabilities as at December 31, 2014 and 2013 based on contractual undiscounted repayment obligations (in thousands).

	December 31, 2014					
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Total**
Deposit liabilities:						
Demand	**P19,873,041**	**P -**	**P -**	**P -**	**P -**	**P19,873,041**
Savings	**17,277,557**	**63,904,218**	**2,736,622**	**-**	**-**	**83,918,397**
Time	**36,199**	**11,236,139**	**3,964,766**	**772,088**	**-**	**16,009,192**
Bills payable	**-**	**21**	**63**	**660**	**407**	**1,151**
Manager's check and acceptances payable	**-**	**544,153**	**-**	**-**	**-**	**544,153**
Accrued interest and other expenses	**-**	**372,723**	**-**	**-**	**-**	**372,723**
Other liabilities*	**-**	**-**	**2,253,047**	**256,058**	**-**	**2,509,105**
Total undiscounted financial liabilities	**P37,186,797**	**P76,057,254**	**P8,954,498**	**P1,028,806**	**P407**	**P123,227,762**

**amounts exclude withholding tax payable*

	December 31, 2013					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Deposit liabilities:						
Demand	P20,376,583	P -	P -	P -	P -	P20,376,583
Savings	12,620,653	45,939,487	2,479,266	-	-	61,039,406
Time	26,759	12,442,643	3,906,630	2,861,170	-	19,237,202
Bills payable	-	715	271,235	684	1,282	273,916
Manager's check and acceptances payable	-	305,412	-	-	-	305,412
Accrued interest and other expenses	-	307,295	-	-	-	307,295
Other liabilities*	-	-	2,434,347	256,058	-	2,690,405
Total undiscounted financial liabilities	P33,023,995	P58,995,552	P9,091,478	P3,117,912	P1,282	P104,230,219

**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, 2014				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Commitments	**P -**	**P89,658**	**P169,274**	**P -**	**P258,932**
Contingent liabilities	**16,500,594**	**1,396,462**	**89,085**	**4,116,932**	**22,103,073**
	P16,500,594	**P1,486,120**	**P258,359**	**P4,116,932**	**P22,362,005**

	December 31, 2013				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Commitments	P -	P296,263	P186,807	P -	P483,070
Contingent liabilities	6,911,953	2,495,825	37,411	1,171,994	10,617,183
	P6,911,953	P2,792,088	P224,218	P1,171,994	P11,100,253

Market Risk

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

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

BSP Regulatory Reporting - Market Risk

Market risk-weighted assets by type of exposure as at December 31, 2014 and 2013 as reported to the BSP follows (amounts in thousands):

	2014	2013
Foreign exposures	**P528,181**	P1,247,141
Interest rate exposures	**209,402**	591,516
	P737,583	P1,838,657

Interest Rate Risk

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

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

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

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

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

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

BSP Regulatory Reporting - Interest Rate Risk

The table set forth the Bank's interest rate repricing gap as at December 31, 2014 and 2013, based on reporting made to BSP.

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

	2013								
In Millions	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1 -3 Years	3-5 Years	Beyond 5 Years	Non-Rate Sensitive	Total
RESOURCES									
Cash and COCI	P -	P -	P -	P -	P -	P -	P -	P1,672	P1,672
Due from BSP	14,700	-	-	-	-	-	-	15,522	30,222
Due from other banks	-	-	-	-	-	-	-	6,143	6,143
Interbank loans receivables	94	-	-	-	-	-	-	-	94
Financial assets at FVPL	-	-	-	-	-	-	-	440	440
Available-for-sale securities - net	-	9,474	4,527	5,962	663	45	5,542	670	26,883
Other investments - net	-	-	-	-	-	19	186	152	357
Loans - net	21,618	17,758	49	351	1	-	-	1,952	41,729
Other resources	696	139	23	2	-	-	-	9,711	10,571
	P37,108	P27,371	P4,599	P6,315	P664	P64	P5,728	P36,262	P118,111
LIABILITIES AND EQUITY									
Deposit liabilities	P47,782	P10,586	P4,115	P2,197	P2,317	P296	P -	P32,998	P100,291
Demand deposits	-	-	-	-	-	-	-	20,377	20,377
Savings deposits	-	-	-	-	-	-	-	12,621	12,621
Time deposits	47,782	10,586	4,115	2,197	2,317	296	-	-	67,293
Bills payable	159	-	111	-	-	-	1	-	271
Other liabilities	-	-	-	-	-	-	-	3,731	3,731
	47,941	10,586	4,226	2,197	2,317	296	1	36,729	104,293
Capital funds	-	-	-	-	-	-	-	13,818	13,818
	P47,941	P10,586	P4,226	P2,197	P2,317	P296	P1	P50,547	P118,111
Total periodic gap	(P10,833)	P16,785	P373	P4,118	(P1,653)	(P232)	P5,727	(P14,285)	

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

	December 31, 2014		
Currency	**Changes in Interest Rates (In Basis Points)**	**Sensitivity of Net Interest Income (In Millions)**	**Sensitivity of Other Comprehensive Income (In Millions)**
PHP	**+200**	**(P139)**	**(P3,580)**
USD	**+100**	**3**	**(524)**
PHP	**-200**	**139**	**3,580**
USD	**-100**	**(3)**	**524**

	December 31, 2013		
Currency	Changes in Interest Rates (In Basis Points)	Sensitivity of Net Interest Income (In Millions)	Sensitivity of Other Comprehensive Income (In Millions)
PHP	+200	(P9)	(P3,865)
USD	+100	14	(354)
PHP	-200	9	3,865
USD	-100	(14)	354

The sensitivity of the results of operations is measured as the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate of financial assets and financial liabilities held as at December 31, 2014 and 2013. The sensitivity of OCI is calculated by revaluing fixed-rate AFS debt securities as at December 31, 2014 and 2013. 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 2014 and 2013, management believes the Bank's exposure to equity price risk is considered minimal.

Currency Risk
Foreign currency deposits are generally used to fund the foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities held in 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 at December 31, 2014 and 2013. 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, 2014			
	USD	**Euro**	**Others**	**Total**
Assets				
Due from other banks	**$12,977**	**$857**	**$958**	**$14,792**
Loans and receivables	**3,673**	**-**	**-**	**3,673**
Total assets	**16,650**	**857**	**958**	**18,465**
Liabilities				
Deposit liabilities	**-**	**978**	**-**	**978**
Other liabilities	**75**	**-**	**15**	**90**
Total liabilities	**75**	**978**	**15**	**1,068**
Net Exposure	**$16,575**	**($121)**	**$943**	**$17,397**

	December 31, 2013			
	USD	Euro	Others	Total
Assets				
Due from other banks	$7,217	$760	$803	$8,780
Loans and receivables	5,043	-	-	5,043
Total assets	12,260	760	803	13,823
Liabilities				
Deposit liabilities	-	569	-	569
Other liabilities	915	-	-	915
Total liabilities	915	569	-	1,484
Net Exposure	$11,345	$191	$803	$12,339

The table below indicates the currencies which the Bank has significant exposure to as at December 31, 2014 and 2013 based on its foreign currency-denominated assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of other currency rates against the PHP, with all other variables held constant on the results of operations (due to the fair value of currency sensitive monetary assets and liabilities) and OCI. A negative amount in the table reflects a potential net reduction of net income or OCI while positive amount reflects a net potential increase. Change in currency rates are based on the historical movements of each currency for the same period:

	Philippine Peso Appreciates by	**Effect on Profit before Tax** (In Millions)	**Philippine Peso Depreciates by**	**Effect on Profit before Tax** (In Millions)
December 31, 2014				
Currency				
USD	**P1.00**	**(P16.58)**	**(P1.00)**	**P16.58**
Euro	**0.50**	**0.06**	**(0.50)**	**(0.06)**
Others	**0.40**	**(0.38)**	**(0.40)**	**0.38**
December 31, 2013				
Currency				
USD	P1.00	(P11.35)	(P1.00)	P11.35
Euro	0.50	(0.10)	(0.50)	0.10
Others	0.40	(0.32)	(0.40)	0.32

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

6. Categories and Fair Value Measurement

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

COCI - 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 or estimates provided by counterparties.

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.

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

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

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

Bills and Acceptances Payables - Fair values approximate carrying amounts given the short-term nature of the accounts.

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

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

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities.

- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Set out below is a comparison by category of carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2014 and 2013 (in thousands):

	December 31, 2014				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL:					
Government securities held for trading	**P329,456**	**P329,456**	**P -**	**P -**	**P329,456**
Derivative assets	**22,360**	**-**	**22,360**	**-**	**22,360**
Other debt securities	**1,391**	**1,391**	**-**	**-**	**1,391**
AFS securities:					
Quoted government securities	**22,933,705**	**22,933,705**	**-**	**-**	**22,933,705**
Quoted other debt securities	**4,009,261**	**4,009,261**	**-**	**-**	**4,009,261**
Unquoted debt securities	**795,924**	**-**	**795,924**	**-**	**795,924**
Quoted equity securities	**106,605**	**106,605**	**-**	**-**	**106,605**
	28,198,702	**27,380,418**	**818,284**	**-**	**28,198,702**
Nonfinancial Assets					
Investment properties	**4,572,699**	**-**	**4,572,699**	**-**	**4,572,699**
Property and equipment*	**1,593,877**	**-**	**1,593,877**	**-**	**1,593,877**
	P34,365,278	**P27,380,418**	**P6,984,860**	**P -**	**P34,365,278**
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL	**P -**	**P -**	**P -**	**P -**	**P -**

*Land and building

	December 31, 2013				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL:					
Government securities held for trading	P413,295	P413,295	P -	P -	P413,295
Derivative assets	25,155	-	25,155	-	25,155
Other debt securities	1,437	1,437	-	-	1,437
AFS securities:					
Quoted government securities	22,457,589	22,457,589	-	-	22,457,589
Quoted other debt securities	1,698,424	1,698,424	-	-	1,698,424
Unquoted debt securities	2,374,946	-	2,374,946	-	2,374,946
Quoted equity securities	106,605	106,605	-	-	106,605
	27,077,451	24,677,350	2,400,101	-	27,077,451
Nonfinancial Assets					
Investment properties	3,862,212	-	3,862,212	-	3,862,212
Property and equipment*	1,009,657	-	1,009,657	-	1,009,657
	P31,949,320	P24,677,350	P7,271,970	P -	P31,949,320
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL	P10,880	P -	P10,880	P -	P10,880

*Land and building

	December 31, 2014				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets for which Fair Values are Disclosed					
Financial Assets					
Loans and receivables:					
COCI	**P2,325,630**	**P -**	**P2,325,630**	**P -**	**P2,325,630**
Due from BSP and other banks	**52,746,940**	**-**	**52,746,940**	**-**	**52,746,940**
Interbank loans receivable	**5,699,716**	**-**	**5,699,716**	**-**	**5,699,716**
	60,772,286	**-**	**60,772,286**	**-**	**60,772,286**
Receivable from customers	**40,766,547**	**-**	**41,396,683**	**-**	**41,396,683**
Less unearned interest	**56,268**	**-**	**56,268**	**-**	**56,268**
	40,710,279	**-**	**41,340,415**	**-**	**41,340,415**
Sales contract receivable	**1,153,995**	**-**	**1,153,995**	**-**	**1,153,995**
Accrued interest receivable	**666,641**	**-**	**666,641**	**-**	**666,641**
Accounts receivable	**302,374**	**-**	**302,374**	**-**	**302,374**
RCOCI	**5,897**	**-**	**5,897**	**-**	**5,897**
	42,839,186	**-**	**43,469,322**	**-**	**43,469,322**
	P103,611,472	**P -**	**P104,241,608**	**P -**	**P104,241,608**
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Bills and Acceptances Payable	**P828**	**P -**	**P828**	**P -**	**P828**

	December 31, 2013				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets for which Fair Values are Disclosed					
Financial Assets					
Loans and receivables:					
COCI	P1,671,990	P -	P1,671,990	P -	P1,671,990
Due from BSP and other banks	34,191,117	-	34,191,117	-	34,191,117
Interbank loans receivable	2,362,692	-	2,362,692	-	2,362,692
	38,225,799	-	38,225,799	-	38,225,799
Receivable from customers	43,695,723	-	44,990,624	-	44,990,624
Less unearned interest	128,864	-	128,864	-	128,864
	43,566,859	-	44,861,760	-	44,861,760
Sales contract receivable	1,271,385	-	1,271,385	-	1,271,385
Accrued interest receivable	711,130	-	711,130	-	711,130
Accounts receivable	342,910	-	342,910	-	342,910
Unquoted debt securities	106,276	-	106,276	-	106,276
RCOCI	4,595	-	4,595	-	4,595
	46,003,155	-	47,298,056	-	47,298,056
	P84,228,954	P -	P85,523,855	P -	P85,523,855
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Bills and Acceptances Payable	P271,288	P -	P271,288	P -	P271,288

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

7. Interbank Loans Receivable and Securities Purchased under Resale Agreements

This account consists of interbank loans receivables amounting to P5.7 billion and P2.4 billion as at December 31, 2014 and 2013, respectively.

As at December 31, 2014 and 2013, the Bank has no outstanding SPURA.

Interest income on interbank loans receivable and SPURA follows:

	2014	2013
Interbank loans receivable	**P11,978,671**	P2,761,304
SPURA	**-**	17,072,708
	P11,978,671	P19,834,012

In 2014 and 2013, peso-denominated interbank loans receivables bear interest rates ranging from 2.0% to 3.2% and from 2.0% to 3.6%, respectively. Dollar-denominated interbank loans receivables bear interest rates ranging from 0.1% to 1.0% and from 0.1% to 1.3% in 2014 and 2013, respectively.

In 2013, interest rates earned on SPURA averaged 3.5%.

8. Financial Assets and Financial Liabilities at Fair Value through Profit or Loss

Financial assets at FVPL consist of:

	2014	2013
Government securities held for trading	**P329,456,496**	P413,295,075
Derivative assets	**22,360,000**	25,154,518
Private debt securities held for trading	**1,391,014**	1,437,537
	P353,207,510	P439,887,130

Financial liabilities at FVPL, on the other hand, represent the change in fair value of the Bank's credit derivatives. As at December 31, 2014 and 2013, the financial liabilities at FVPL amounted to nil and P10.9 million, respectively (see Note 36).

As at December 31, 2014 and 2013, financial assets and liabilities through FVPL are adjusted for unrealized gain of P5.2 million and unrealized loss of P18.5 million, respectively (see Note 26).

Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Bank, recorded as derivative assets or derivative liabilities, together with the notional amount and leverage exposure. The leverage exposure is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The leverage exposure indicates the volume of transactions outstanding as at December 31, 2014 and 2013 and is not indicative of either market risk or credit risk.

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

	December 31, 2013			
	Derivative Assets	Derivative Liabilities	Notional Amount	Leverage Exposure
Freestanding derivatives:				
Warrants	P22,197,500	P -	$50,000	$ -
Forwards	200,000	675,000	25,000,000	-
Embedded derivatives:				
Credit default swaps	2,757,018	10,205,345	47,187,500	47,187,500
	P25,154,518	P10,880,345	$72,237,500	$47,187,500

9. Available-for-Sale Securities

This account consists of (amounts in thousands):

	Note	**2014**	2013
Quoted AFS Securities			
Government securities		**P22,933,705**	P22,457,589
Other debt securities		**4,009,261**	1,698,424
Quoted equity securities, net of allowance for impairment losses of P40.1 million as at December 31, 2014 and 2013	*16*	**106,605**	106,605
		27,049,571	24,262,618
Unquoted AFS Securities			
Debt securities, net of allowance for impairment losses of nil and P352.3 million as at December 31, 2014 and 2013, respectively	*16, 36*	**795,924**	2,374,946
Equity securities, net of allowance for impairment losses of P300.1 million and P305.5 million as at December 31, 2014 and 2013, respectively	*16*	**35,744**	37,786
		P27,881,239	P26,675,350

Quoted AFS Securities

On December 2, 2013, subsequent to the approval of PDIC Board and BSP MB dated November 8 and 21, 2013 (see Note 18), respectively, the Bank sold the GS which was previously pledged as a collateral for its Financial Assistance Agreement (FAA) with PDIC. The GS had a face value of P1.8 billion and was sold for P3.2 billion. The sale transaction resulted to a trading gain amounting to P1.2 billion in 2013. The trading gain was applied in accordance with the condition provided in MB Resolution No. 1950 (see Note 18).

Unquoted AFS Securities

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

Unquoted AFS securities include also the Bank’s 12.0% equity interest in Banco National de Guinea Equatorial (BANGE) as part of its partnership with the National Government of the Republic of Equatorial Guinea (see Note 33).

Reclassification

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

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

Net Unrealized Gains (Losses) on AFS Securities

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

	Note	2014	2013
Balance at beginning of year		**(P576,891,214)**	P1,363,484,048
Unrealized gain (loss) recognized as OCI		**1,214,687,688**	(240,398,815)
Realized gains taken to profit or loss	*26*	**(190,500,338)**	(1,699,976,447)
Balance at end of year		**P447,296,136**	(P576,891,214)

10. Loans and Receivables

This account consists of:

	Note	2014	2013
Receivables from customers:			
Term loans		**P35,302,739,439**	P38,955,838,671
Bills purchased, import bills and trust receipts	*20*	**1,515,229,920**	1,925,235,189
Direct advances		**824,846,678**	832,595,586
Agri-agra loans		**361,067,788**	337,577,942
Others		**4,226,018,711**	3,410,595,423
		42,229,902,536	45,461,842,811
Less unearned interest income		**56,268,293**	128,863,568
		42,173,634,243	45,332,979,243
Sales contracts receivable		**1,155,548,355**	1,272,941,384
Unquoted debt securities	*36*	**613,122,002**	1,361,551,834
Accrued interest receivable:			
Loans and receivables		**532,113,667**	612,420,187
Trading and investment securities		**302,217,083**	323,685,377
Due from BSP and other banks		**4,546,007**	3,266,667
Interbank loans and SPURA		**259,968**	10,199
Accounts receivable		**797,054,667**	851,245,013
Returned checks and other check items		**5,896,609**	4,594,771
		45,584,392,601	49,762,694,675
Less allowance for credit losses	*16*	**2,745,206,300**	3,759,539,296
		P42,839,186,301	P46,003,155,379

Bills purchased, import bills and trust receipts includes bills purchased with contra account in "Miscellaneous liabilities" amounting to P1.2 billion and 1.5 billion as at December 31, 2014 and 2013, respectively (see Note 20).

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

Regulatory Reporting
As at December 31, 2014 and 2013, the breakdown of receivables from customers as to collateral follows (amounts in thousands, except percentages):

	2014		2013	
	Amount	**%**	Amount	%
Loans secured by:				
Real estate	**P5,356,342**	**12.7**	P6,734,140	14.8
Chattel	**2,928,918**	**6.9**	2,478,986	5.5
Deposit hold-out	**778,199**	**1.8**	1,930,799	4.2
Deed of assignment and others	**6,155,754**	**14.6**	8,397,693	18.5
	15,219,213	**36.0**	19,541,618	43.0
Unsecured	**27,010,690**	**64.0**	25,920,225	57.0
	P42,229,903	**100.0**	P45,461,843	100.0

As at December 31, 2014 and 2013, information on the concentration of credit as to industry follows (amounts in thousands, except percentages):

	2014		2013	
	Amount	**%**	Amount	%
Construction	**P7,075,999**	**16.8**	P6,520,613	14.3
Manufacturing	**5,551,752**	**13.1**	3,382,228	7.4
Wholesale and retail trade, repair of motor vehicles and motorcycles	**5,305,772**	**12.6**	3,642,126	8.0
Electricity, gas, steam, and air-conditioning supply	**4,601,964**	**10.9**	3,217,763	7.1
Real estate activities	**4,339,069**	**10.3**	4,039,144	8.9
Administrative and supportservice activities	**3,844,587**	**9.1**	3,703,305	8.2
Financial and insurance activities	**3,338,638**	**7.9**	3,326,253	7.3
Accommodation and food service activities	**2,592,654**	**6.1**	2,691,757	5.9
Transportation and storage	**1,744,525**	**4.1**	8,989,805	19.8
Information and communication	**549,084**	**1.3**	1,819,223	4.0
Others*	**3,285,859**	**7.8**	4,129,626	9.1
	P42,229,903	**100.0**	P45,461,843	100.0

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

BSP considers that concentration of credit risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.0% of total loan portfolio. The 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, which are fully covered by allowance for credit losses, provided that interest on the said receivables shall not be accrued. Details of the Bank's nonperforming loans (NPLs) not fully covered by allowance for credit losses follows (in thousands):

	2014	2013
Total NPLs	**P2,584,112**	P3,903,799
Less NPLs fully covered by allowance for credit losses	**-**	-
	P2,584,112	P3,903,799

Under Section X309.1 of 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 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 at December 31, 2014 and 2013, restructured loans amounted to P1.3 billion and P1.7 billion, respectively. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs. As at December 31, 2014 and 2013, restructured receivables from customers considered as NPLs amounted to P0.6 billion and P1.0 billion, respectively.

<u>Interest Income on Loans and Receivables</u>
This account consists of:

	Note	**2014**	2013
Receivable from customers:			
Term loans		**P1,887,104,370**	P1,609,555,003
Direct advances		**40,644,677**	51,817,854
Bills purchased, import bills and trust receipts		**23,717,504**	33,463,369
Agri-agra loans		**21,487,917**	14,954,340
Others		**554,252,132**	395,617,228
		2,527,206,600	2,105,407,794
Sales contract receivable		**71,000,084**	100,096,545
Unquoted debt securities	*36*	**9,610,241**	6,062,262
		P2,607,816,925	P2,211,566,601

As at December 31, 2014 and 2013, 92.2% and 78.0%, 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 2014 and 2013. Dollar-denominated loans earn annual fixed interest rates ranging from 0.0% to 13.0% in 2014 and from 0.1% to 13.0% in 2013.

Unquoted debt instruments bear fixed interest rates per annum of 8.0% and 2.5% in 2014 and 2013, respectively.

Sales contracts receivable bear fixed interest rates ranging from 2.7% to 19.0% in 2014 and 2013.

11. Investment in Associate

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

	Note	**2014**	2013
Acquisition cost (24.25%-owned)		**P75,395,200**	P75,395,200
Accumulated equity in net loss and OCI:			
Balance at beginning of year		**(17,787,073)**	(12,169,501)
Share in net income (loss)		**1,553,338**	(566,369)
Share in other comprehensive loss		**(82,983)**	(853,935)
Other adjustments		**(670,109)**	(4,197,268)
Balance at end of year		**(16,986,827)**	(17,787,073)
Allowance for impairment loss	*16*	**(3,794,606)**	(5,925,786)
		P54,613,767	P51,682,341

The following table shows the summarized financial information of BIC:

	2014**	2013*
Assets	**P219,096,084**	P212,957,267
Liabilities	**(2,676,673)**	(2,975,849)
Net assets	**216,419,411**	209,981,418
Revenues	**20,808,336**	8,488,839
Net income (loss) for the year	**6,405,519**	(5,098,879)
OCI for the year	**(1,252,552)**	(1,123,386)
Total comprehensive income (loss) for the year	**5,152,967**	(6,222,265)

* *Based on 2013 audited financial statements*
***Based on 2014 unaudited numbers*

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

On July 23, 2014, SEC approved the said change of corporate name and the amendment of its articles of incorporation.

As at December 31, 2014 and 2013, the Bank's subscribed capital stock in BIC amounted to P75.8 million out of the BIC's outstanding capital stock of P312.5 million.

12. Property and Equipment

The movements in property and equipment follow:

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

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

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

At Cost	December 31, 2013 Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost			
Balance at January 1	P1,683,077,577	P593,710,095	P2,276,787,672
Additions	204,716,633	77,640,610	282,357,243
Disposals and others	(268,052,615)	(532,051)	(268,584,666)
Balance at December 31	1,619,741,595	670,818,654	2,290,560,249
Accumulated Depreciation and Amortization			
Balance at January 1	1,104,581,870	444,285,998	1,548,867,868
Depreciation and amortization	163,306,291	63,679,865	226,986,156
Disposals and others	(163,795,610)	725,942	(163,069,668)
Balance at December 31	1,104,092,551	508,691,805	1,612,784,356
Net Book Value at December 31	P515,649,044	P162,126,849	P677,775,893

At Appraised Values	*Note*	December 31, 2013 Land	Buildings	Total
Revalued Amount				
Balance at January 1		P110,677,967	P1,378,250,443	P1,488,928,410
Disposals and others		(50,000,394)	(12,795,826)	(62,796,220)
Balance at December 31		60,677,573	1,365,454,617	1,426,132,190
Accumulated Depreciation				
Balance at January 1		-	358,167,913	358,167,913
Depreciation		-	54,598,970	54,598,970
Disposals and others		-	(6,290,618)	(6,290,618)
Balance at December 31		-	406,476,265	406,476,265
Allowance for impairment losses	*16*	(8,840,668)	(1,158,569)	(9,999,237)
Net Book Value at December 31		P51,836,905	P957,819,783	P1,009,656,688

In 2014 and 2013, gains on sale of property and equipment amounted to P23.2 million and P24.5 million, respectively.

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

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

Appraisal increment as presented under "Revaluation increment on property" account amounted to P488.6 million and P32.6 million, as at December 31, 2014 and 2013, respectively.

As at December 31, 2014 and 2013, the cost of fully depreciated property and equipment still in use amounted to P775.3 million and P690.0 million, respectively.

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

	December 31, 2014			December 31, 2013		
	Land	**Buildings**	**Total**	Land	Buildings	Total
Cost	**P41,570,353**	**P1,269,819,462**	**P1,311,389,815**	P41,570,352	P1,290,295,463	P1,331,865,815
Accumulated depreciation	**-**	**(400,833,415)**	**(400,833,415)**	-	(358,847,086)	(358,847,086)
	P41,570,353	**P868,986,047**	**P910,556,400**	P41,570,352	P931,448,377	P973,018,729

13. Investment Properties

The movements in investment properties follow:

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

	December 31, 2013 (As restated - Note 37)		
	Land	Buildings	Total
Balance at January 1	P2,978,869,596	P1,023,580,867	P4,002,450,463
Additions	103,900,474	66,322,166	170,222,640
Changes in market value	35,598,347	7,258,233	42,856,580
Reclassifications	(43,267,000)	(24,953,000)	(68,220,000)
Disposals and others	(223,681,366)	(61,416,203)	(285,097,569)
Balance at December 31	P2,851,420,051	P1,010,792,063	P3,862,212,114

Investment properties are stated at fair values, which 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. The recurring fair value measurement for investment property has been categorized as a Level 2 fair value based on the inputs to the valuation technique used (see Note 6).

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

	2014	2013 (As restated - Note 37)
Gain on foreclosure	**P125,605,644**	P39,103,836
Gain (loss) on assets sold	**8,201,899**	(11,138,806)
	P133,807,543	P27,965,030

Rental income on investment properties (included in "Miscellaneous income" account in the statements of income) in 2014 and 2013 amounted to P5.2 million and P2.7 million, respectively.

Direct operating expenses on investment properties that generated rental income (included under "Litigation and acquired assets" in "Other expenses - miscellaneous" account and "Taxes and licenses" account in the statements of income) in 2014 and 2013 amounted to P10.9 million and P4.4 million, respectively. Direct operating expenses on investment properties that did not generate rental income (included under "Litigation and acquired assets" in "Other expenses - miscellaneous" account and "Taxes and licenses" account in the statements of income) in 2014 and 2013 amounted to P116.0 million and P100.7 million, respectively.

14. Non-current Assets Held for Sale

As at December 31, 2014 and 2013, non-current assets were stated at carrying amount and comprised of the following:

	2014			2013		
	Land	**Buildings**	**Total**	Land	Buildings	Total
Balance at beginning of year	**P140,464,905**	**P101,277,482**	**P241,742,387**	P224,366,372	P101,463,765	P325,830,137
Reclassifications	**74,479,943**	**15,497,305**	**89,977,248**	39,843,700	21,224,443	61,068,143
Disposals	**(62,198,883)**	**(47,628,854)**	**(109,827,737)**	(123,745,167)	(21,410,726)	(145,155,893)
Balance at end of year	**P152,745,965**	**P69,145,933**	**P221,891,898**	P140,464,905	P101,277,482	P241,742,387

In 2014 and 2013, gains on sale of non-current assets held for sale amounted to P49.6 million and P77.9 million, respectively.

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

15. Other Assets

This account consists of:

	Note	2014	2013 (As restated - Note 37)
Withholding tax on PEACe bonds		**P580,336,854**	P580,336,854
Software costs*		**455,134,114**	524,042,315
Miscellaneous assets	*22, 34, 37*	**5,373,034,606**	5,271,121,407
		6,408,505,574	6,375,500,576
Less allowance for impairment and credit losses	*16*	**4,875,775,922**	4,910,290,947
		P1,532,729,652	P1,465,209,629

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

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

On October 17, 2011, the Bank, along with a consortium of other banks with investment in PEACe bonds filed a petition with the Supreme Court seeking a temporary restraining order (TRO) against the implementation of the said BIR ruling.

On October 18, 2011, the Supreme Court (SC) issued a TRO, and in a resolution, enjoined the implementation of the BIR ruling and directed that the 20% final withholding tax (FWT) on interest income from PEACe bonds withheld be remitted to the banks and placed in escrow account pending resolution of the petition.

On November 15, 2011, SC issued another resolution requiring the BTr, BIR and Department of Finance (DOF) (Respondents) to comply with the TRO when said offices failed to remit to the banks the 20% FWT as directed.

On November 27, 2012, the Bank, along with the other banks, filed a *Manifestation with Urgent Reiterative Motion* (to direct Respondents to comply with the TRO) praying that the SC will issue a resolution directing the Respondents to release to the petitioner banks the disputed 20% FWT to enable the banks to comply with the SC condition that the same shall be withheld by the banks and placed in escrow pending resolution of the petition.

The Respondents were granted by the SC a period of 30 days from February 4 to March 6, 2013 to file their Comment to the Reiterative Motion. On April 17, 2013, the Comment was received praying that the Motion be denied for lack of merit. The following were the arguments of the Respondents:

- Implementation of BIR Ruling Nos. 370-2011 and 378-2011 was not in violation of the TRO dated October 18, 2011 as the TRO was no longer effective.
- The 20% FWT were already part of the public funds on October 18, 2011 at the point of withholding.

As at December 31, 2014 and 2013, there was no report to the banks that a resolution has been issued by the SC directing Respondents to comply with the TRO.

As at December 31, 2014 and 2013, allowance for impairment losses on PEACe bonds amounted to P290.2 million.

Software Costs
Movements in software costs follow:

	2014	2013
Cost		
Balance at January 1	**P638,654,959**	P583,027,814
Additions	**79,417,850**	186,516,645
Write-offs and others	**(62,914,145)**	(130,889,500)
Balance at end of year	**655,158,664**	638,654,959
Accumulated Amortization		
Balance at January 1	**114,612,644**	111,189,334
Amortization for the year	**97,346,489**	71,627,308
Write-offs and others	**(11,934,583)**	(68,203,998)
Balance at end of year	**200,024,550**	114,612,644
Less allowance for impairment losses	**40,923,010**	40,923,010
Net Book Value	**P414,211,104**	P483,119,305

Deferred Charges - Loss on Sale to SPV
The Bank sold certain nonperforming assets (NPAs) to special purpose vehicle (SPV) in 2007 and 2005. Under PFRS, the losses arising from the sale of the NPAs amounting to P432.1 million and P1.5 billion in 2007 and 2005, respectively, were recognized in full in the period such losses were incurred (see Note 37). The NPLs were sold for cash to an SPV pursuant to Republic Act (RA) No. 9182, *The Special Purpose Vehicle Act of 2002*.

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

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

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

Miscellaneous Assets
This account includes sinking fund for the unpaid portion of the redemption price of preferred shares amounting to P256.1 million and NPAs amounting to P4.5 billion as at December 31, 2014 and 2013, which were assumed by the Bank in connection with the Purchase and Sale Agreement (PSA) entered into by the Bank with Traders Royal Bank (TRB) in 2002 (see Note 34). Under PFRS, the impairment losses on the NPAs amounting to P4.5 billion were charged in full in the period incurred (see Note 37).

For prudential reporting purposes to the BSP, the Bank was allowed under the MB Resolution No. 1751, dated November 8, 2001, as further amended by MB Resolution No. 489, dated April 3, 2003 and pursuant to MB Resolution No. 1950, dated November 21, 2013, to defer the full recognition of the impairment losses (see Note 37). The Bank annually recognizes provisions for impairment losses to gradually meet the foregoing provisioning requirement based on the net yield earned by the Bank from the FAA with PDIC until November 29, 2013 when the collateralized GS was sold and the obligation was fully settled. Moving forward, the Bank will continue to amortize the losses at the rate of P160.0 million annually for prudential reporting purposes to the BSP (refer to Note 34).

16. Allowance for Impairment and Credit Losses

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

	December 31, 2014				
	AFS Securities (Note 9)	**Loans and Receivables** (Note 10)	**Property and Equipment** (Note 12)	**Other Assets*** (Notes 11 and 15)	**Total**
Balance at beginning of year, as restated	**P697,918**	**P3,759,539**	**P9,999**	**P4,916,217**	**P9,383,673**
Provisions (recoveries) taken up to profit or loss	**(5,220)**	**(383,950)**	**4,734**	**(31,191)**	**(415,627)**
Reclassifications	**-**	**5,455**	**-**	**(5,455)**	**-**
Reversals	**(352,272)**	**(642,869)**	**-**	**-**	**(995,141)**
Others **	**(259)**	**7,031**	**-**	**-**	**6,772**
Balance at end of year	**P340,167**	**P2,745,206**	**P14,733**	**P4,879,571**	**P7,979,677**

**Includes allowance for impairment loss on investment in associate (see Note 11) and other assets (see Note 15)*
***Includes foreign exchange difference*

	December 31, 2013 (As restated - Note 37)				
	AFS Securities (Note 9)	Loans and Receivables (Note 10)	Property and Equipment (Note 12)	Other Assets* (Notes 11 and 15)	Total
Balance at beginning of year, as restated	P345,297	P3,968,441	P23,486	P4,775,168	P9,112,392
Provisions (recoveries) taken up to profit or loss	352,343	(275,813)	(886)	186,822	262,466
Reclassifications	-	239	-	(239)	-
Reversals	-	(19,164)	(12,601)	(45,552)	(77,317)
Others **	278	85,836	-	18	86,132
Balance at end of year	P697,918	P3,759,539	P9,999	P4,916,217	P9,383,673

**Includes allowance for impairment loss on investment in associate (see Note 11) and other assets (see Note 15)*
***Includes foreign exchange difference*

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

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

**Others include foreign exchange differential*

	Note	December 31, 2013 Term Loans	Direct Advances	Agri-agra Loans	Bills Purchased, Import Bills, and Trust Receipts	Others	Total
Balance at beginning of year, as restated		P1,180,544,678	P505,877,120	P120,095,472	P79,454,070	P2,082,469,556	P3,968,440,896
Provisions (recoveries) taken up to profit or loss		246,531,110	(453,331,840)	(113,913,456)	15,799,580	29,101,269	(275,813,337)
Reclassifications		(4,374,750)	(173,746)	-	(295,204)	5,083,192	239,492
Reversals		(8,373,383)	-	-	-	(10,790,645)	(19,164,028)
Others*		10,460,257	3,212,158	-	-	72,163,858	85,836,273
Balance at end of year		P1,424,787,912	P55,583,692	P6,182,016	P94,958,446	P2,178,027,230	P3,759,539,296
Total Impairment Allowance	*10*						
Individual impairment							P3,367,325,492
Collective impairment							392,213,804
							P3,759,539,296
Gross amount of loans and receivables, individually determined to be impaired							P8,817,663,622

**Others include foreign exchange differential*

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

	December 31, 2014			December 31, 2013		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total
Balance at beginning of year, as restated	P3,367,325,492	P392,213,804	P3,759,539,296	P3,534,541,199	P433,899,697	P3,968,440,896
Provisions (recoveries) taken up to profit or loss	(515,873,147)	131,923,109	(383,950,038)	(244,127,444)	(31,685,893)	(275,813,337)
Reclassifications	5,454,916	-	5,454,916	10,239,492	(10,000,000)	239,492
Reversals	(635,102,140)	(7,767,308)	(642,869,448)	(19,164,028)	-	(19,164,028)
Others*	7,031,574	-	7,031,574	85,836,273	-	85,836,273
Balance at end of year	P2,228,836,695	P516,369,605	P2,745,206,300	P3,367,325,492	P392,213,804	P3,759,539,296

**Others include foreign exchange differential*

17. Deposit Liabilities

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

- Unification of the statutory and liquidity reserve requirements, from 11% 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;
- GS which are used as compliance with the regular and/or liquidity reserve requirements shall continue to be eligible until they mature;
- Discontinuance of Reserve Deposit Account facility beginning April 6, 2012; and
- Deposits maintained with the BSP in compliance with the reserve requirement no longer bear interest.

On March 27, 2014, the BSP issued Circular No. 832, which amends the reserve requirements from 18% to 20% effective on the reserve week starting on May 30, 2014.

As at December 31, 2014 and 2013, the Bank is in compliance with such reserve requirements.

Due from BSP-DDA amounting to P20.6 billion and P15.5 billion as at December 31, 2014 and 2013, respectively, is available for meeting these reserve requirements as reported to the BSP.

In 2014 and 2013, interest rates earned on Due from BSP-Special Deposit Accounts averaged 2.2%.

Interest expense on deposit liabilities follows:

	2014	2013
Demand	**P67,477**	P1,903
Savings	**684,945,662**	500,788,539
Time	**279,836,082**	381,662,003
	P964,849,221	P882,452,445

Peso-denominated deposits are subject to annual interest rates ranging from 0.1% to 6.5% in 2014 and 2013. Foreign currency-denominated deposits are subject to annual interest rates ranging from 0.1% to 1.8% in 2014 and from 0.1% to 2.5% in 2013.

18. Bills Payable

This account consists of borrowings from:

	Note	**2014**	2013
Rediscounting facility		**P827,621**	P1,277,708
Bills payable:			
Banks and other financial intermediaries	*31*	**-**	270,010,168
		P827,621	P271,287,876

Rediscounting Facility
This account mainly consists of the rediscounting facility availed by TRB from Social Security System, which was assumed by the Bank in connection with the PSA entered into by the Bank with TRB in 2002. This was collateralized by certain receivables from customers amounting to P1.8 million.

PDIC
In 2012, the Bank has an outstanding loan granted by the PDIC pursuant to the FAA discussed in Note 34 to the financial statements, with face value of P1.8 billion and an annual interest rate of 3.0%. The loan was collateralized by the P1.8 billion GS acquired using the proceeds of the PDIC loan which was classified as AFS securities and previously from HTM investments as at December 31, 2010 and was reclassified to AFS securities in 2011 (see Note 9). The loan had been considered as a government grant as defined under PAS 20 and was granted by the PDIC as an incentive to the Bank for acting as a "White Knight" when it entered into the PSA with TRB (see Notes 20 and 34).

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

2013 Developments

On October 31, 2013, the Bank wrote PDIC requesting for early settlement of the loan extended by PDIC to the Bank amounting to P1.8 billion and the waiver of the 30-day advance written notice required under Section 2.07 of the Financial Assistance Agreement dated December 4, 2001, as amended by the Supplemental Agreement dated September 22, 2009.

On November 8, 2013, the PDIC Board approved the Bank's request of early settlement of its obligation plus interest up to the date of actual loan payment subject to the following:

1. Approval by the MB; and

2. Remittance by the Bank to BSP and PDIC of all the unremitted share on the gain from TRB assets from 2002 up to the date of actual settlement of obligation or pending determination of the agreed amount of gain from TRB assets.

On November 21, 2013, the MB, in its Resolution No. 1950, approved the request of the Bank to maintain the regulatory relief, i.e. to continue the staggered booking of allowance for impairment losses on the remaining Miscellaneous Assets - Traders Royal Bank (MA-TRB) at the rate of P160.0 million annually for prudential reporting purposes to the BSP and commencing in 2014 until the MA-TRB is fully provided, and subject to the following conditions:

1. The Bank shall sell the related GS to be released by PDIC resulting from full settlement of its financial assistance amounting to P1.8 billion plus interest, not later than December 31, 2013;

2. Not later than December 31, 2013, the Bank shall apply the resulting trading gains from the sale of the GS as follows:

    a. Set-off against the loss that will be incurred from the disposal/sale of the structured investments;
    b. Set-off against its actual booking of additional regulatory provisions for impairment losses of approximately P600.0 million based on the recent BSP examination which closed on August 16, 2013; and
    c. Any residual trading gain from the sale of the GS shall be booked as additional provision for impairment losses on MA-TRB.

3. The Bank shall not declare any dividend throughout the duration of the regulatory relief and until the balance of the MA-TRB is fully amortized;

4. The Bank shall comply with the directive of the MB under its Resolution No. 620 dated April 25, 2002, and as contained in the Supplement (dated September 22, 2009) to the FAA dated December 4, 2001 executed by and between the Bank and PDIC, that the Bank shall apply as deductions from the MA-TRB the following:

    a. Difference between the dacion price and book value of assets dacioned to BSP, if recognized by the Bank as income; and
    b. Collections from non-performing loans covered by unbooked valuation reserves under MA-TRB.

5. The MA-TRB account shall be subject to verification in the next scheduled on-site examination; and

6. Failure to comply with any of the above conditions shall result in the revocation of the regulatory relief and immediate booking of the remaining unbooked valuation reserves pertaining to MA-TRB.

On November 29, 2013, the Bank fully settled its liability with PDIC, for principal and interests, amounting to P1.8 billion and P11.3 million, respectively.

Interest Expense

Peso-denominated bills payable are subject to annual interest rates ranging from 5.0% to 12.0% in 2014 and 3.0% to 12.0 % in 2013. Foreign currency-denominated bills payable are subject to annual interest rates ranging from 0.4% and 1.0% in 2014 and 2013.

Interest expense on bills payable amounted to P0.8 million and P52.3 million in 2014 and 2013, respectively.

19. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Note	**2014**	2013
Accrued interest payable:			
Deposit liabilities	*17*	**P114,271,086**	P113,383,256
Bills payable	*18*	**6,484**	329,016
		114,277,570	113,712,272
Accrued taxes payable		**277,680,133**	326,533,128
Accrued insurance		**116,476,433**	94,985,534
Accrued other employee and other benefits		**110,559,456**	109,261,973
Accrued lease liability		**75,869,777**	77,200,661
Accrued utilities expense		**15,933,735**	13,643,000
Accrued penalties		**44,236,042**	16,459,313
Other expenses		**81,798,889**	68,495,289
		P836,832,035	P820,291,170

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

20. Other Liabilities

This account consists of:

	Note	**2014**	2013
Accounts payable		**P779,165,989**	P682,220,473
Due to preferred shareholders	*22*	**256,058,333**	256,058,334
Retirement liability	*27*	**178,139,155**	134,003,689
Withholding tax payable		**56,760,785**	51,315,538
Due to Treasurer of the Philippines		**10,924,033**	10,924,033
Miscellaneous	*10*	**1,284,817,317**	1,607,198,427
		P2,565,865,612	P2,741,720,494

Miscellaneous liabilities mainly consists of contra account of the bills purchased classified as loans amounting to P1.2 billion and P1.5 billion granted by the Bank to its depositors as at December 31, 2014 and 2013, respectively (see Note 10).

Unearned income pertains to the "Day 1" difference from the off-market loan from PDIC and the emergency loan from the BSP as discussed in Note 34 to the financial statements. The "Day 1" difference is computed as the difference between the proceeds received from the off-market loans and their fair market values as at initial recognition. Unearned income is amortized over the respective terms of the PDIC loan and the BSP emergency loan using the effective interest method. Unearned income was reversed when the related PDIC and BSP loans were fully settled in 2013 and 2012, respectively (see Note 18).

21. Maturity Profile of Assets and Liabilities

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

		2014			2013 (As restated - Note 37)		
	Note	**Within 12 Months**	**Over 12 Months**	**Total**	Within 12 Months	Over 12 Months	Total
Financial Assets - gross							
COCI		**P2,325,630**	**P -**	**P2,325,630**	P1,671,990	P -	P1,671,990
Due from BSP	*17*	**49,198,854**	**-**	**49,198,854**	30,317,427	-	30,317,427
Due from other banks		**3,548,086**	**-**	**3,548,086**	3,873,689	-	3,873,689
Interbank loans receivable and SPURA	*7*	**5,699,716**	**-**	**5,699,716**	2,362,692	-	2,362,692
Financial assets at FVPL:	*8*						
Government securities held-for-trading		**329,456**	**-**	**329,456**	413,295	-	413,295
Derivative assets		**-**	**22,360**	**22,360**	2,957	22,198	25,155
Private Debt Securities		**1,069**	**322**	**1,391**	-	1,437	1,437
AFS investments-gross:	*9*						
Quoted government securities		**329,826**	**22,603,879**	**22,933,705**	425,329	22,032,260	22,457,589
Quoted other debt securities		**-**	**4,009,261**	**4,009,261**	-	1,698,424	1,698,424
Unquoted debt securities		**-**	**795,924**	**795,924**	1,470,102	1,257,116	2,727,218
Quoted equity securities		**-**	**146,738**	**146,738**	-	146,738	146,738
Unquoted equity securities		**-**	**335,780**	**335,780**	-	343,300	343,300

		2014			2013 (As restated - Note 37)		
	Note	**Within 12 Months**	**Over 12 Months**	**Total**	Within 12 Months	Over 12 Months	Total
Loans and receivables - gross:	*10*						
Receivable from customers:							
Term Loans		**P10,672,758**	**P24,629,981**	**P35,302,739**	P14,863,907	P24,091,932	P38,955,839
Bills purchased, import bills and trust receipts		**1,515,230**	**-**	**1,515,230**	1,925,235	-	1,925,235
Direct Advances		**798,256**	**26,591**	**824,847**	824,443	8,152	832,595
Agri-agra loans		**345,609**	**15,459**	**361,068**	328,827	8,751	337,578
Others		**716,126**	**3,509,893**	**4,226,019**	341,235	3,069,361	3,410,596
Sales contracts receivable		**68,480**	**1,087,068**	**1,155,548**	109,271	1,163,670	1,272,941
Unquoted debt securities		**-**	**613,122**	**613,122**	538,338	823,214	1,361,552
Accrued interest receivable		**839,137**	**-**	**839,137**	939,382	-	939,382
Accounts receivable		**797,055**	**-**	**797,055**	819,426	31,819	851,245
RCOCI		**5,897**	**-**	**5,897**	4,595	-	4,595
		77,191,185	**57,796,378**	**134,987,563**	61,232,140	54,698,372	115,930,512
Nonfinancial Assets - gross							
Investment in associate	*11*	**-**	**75,395**	**75,395**	-	75,395	75,395
Property and equipment	*12*	**-**	**3,927,476**	**3,927,476**	-	3,716,692	3,716,692
Investment properties	*13*	**-**	**4,572,699**	**4,572,699**	-	3,862,212	3,862,212
Non-current assets held for sale	*14*	**221,892**	**-**	**221,892**	241,742	-	241,742
Deferred tax assets - net	*30*	**-**	**337,971**	**337,971**	-	227,423	227,423
Other assets	*15*	**-**	**6,608,529**	**6,608,529**	-	6,490,114	6,490,114
		221,892	**15,522,070**	**15,743,962**	241,742	14,371,836	14,613,578
		P77,413,077	**P73,318,448**	**150,731,525**	P61,473,882	P69,070,208	130,544,090
Less:							
Allowance for impairment and credit losses	*16*			**7,979,677**			9,383,673
Accumulated equity in net loss				**16,987**			17,786
Accumulated depreciation and amortization	*12, 15*			**1,967,795**			2,133,873
Unearned interest	*10*			**56,268**			128,864
Total				**P140,710,798**			P118,879,894

		2014			2013 (As restated - Note 37)		
		Within 12 Months	**Over 12 Months**	**Total**	Within 12 Months	Over 12 Months	Total
Financial Liabilities							
Deposit liabilities	*17*						
Demand		**P19,873,041**	**P -**	**P19,873,041**	P20,376,583	P -	P20,376,583
Savings		**83,851,463**	**-**	**83,851,463**	60,997,383	-	60,997,383
Time		**15,145,356**	**716,503**	**15,861,859**	16,325,891	2,590,690	18,916,581
Financial liabilities at FVPL	*8*	**-**	**-**	**-**	675	10,205	10,880
Bills payable	*18*	**-**	**828**	**828**	270,010	1,278	271,288
Manager's checks and acceptances payable		**544,153**	**-**	**544,153**	305,412	-	305,412
Accrued interest and other expenses	*19*	**372,723**	**-**	**372,723**	307,295	-	307,295
Other liabilities	*20*	**2,253,046**	**256,058**	**2,509,104**	2,434,347	256,058	2,690,405
		122,039,782	**973,389**	**123,013,171**	101,017,596	2,858,231	103,875,827
Nonfinancial Liabilities							
Accrued taxes and other expense payable	*19*	**464,109**	**-**	**464,109**	512,996	-	512,996
Other liabilities	*20*	**56,761**	**-**	**56,761**	51,316	-	51,316
		520,870	-	**520,870**	564,312	-	564,312
		P122,560,652	**P973,389**	**P123,534,041**	P101,581,908	P2,858,231	P104,440,139

22. Capital

As at December 31, 2014 and 2013, the Bank has 112,241,112 common shares issued and subscribed with a par value of P100 and has no outstanding preferred shares. However, the Bank has outstanding liability for the unpaid portion of the redemption price of preferred shares amounting to P256.1 million as at December 31, 2014 and 2013, which is recorded as "Due to preferred shareholders" account under "Other liabilities" in Note 20 to the financial statements. As at December 31, 2014 and 2013, the related sinking fund which is recorded as "Miscellaneous assets" account amounting to P256.1 million, has been set up to fund the eventual settlement of this liability (see Note 15).

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

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

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

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

In this connection, the Bank secured the approval of the MB of the BSP for such sale of shares and assignment of subscription of the shares of Valiant. This is mandated in the BSP's MORB since the total shareholdings of Valiant entitles it to a board seat. The Board has also agreed that the sale of shares and assignment of subscription rights be recorded in the stock and transfer book of the Bank only after the approval of the MB has been obtained.

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

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

Capital Management

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

On October 29, 2014, BSP issued Circular 854 amending Subsection X111.1 of the MORB regarding the minimum capitalization requirement applicable for the Bank (commercial banks with more than 100 branches) from P2.4 billion to P15.0 billion effective November 13, 2014. Banks which comply with the new capital levels shall submit to the BSP a certification to this effect within 30 calendar days from the date of the effectivity of the circular while banks which are not meeting the required minimum capital must submit to the BSP an acceptable capital build-up program within 1 year from the date of effectivity of the circular.

In a letter submitted to the BSP on December 5, 2014, the Bank reported that it has complied in full with regulatory capital requirements which provided that the reported unimpaired capital of P15.3 billion exceeded the new required minimum regulatory capital of P15.0 billion in 2014. In 2013, the reported unimpaired capital of the Bank amounted to P15.7 billion which exceeded the required minimum regulatory capital of P2.4 billion.

The Bank's overall strategy on capital management remains unchanged since prior financial year.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of 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 issued Circular 538 which implemented the Revised Risk-Based Capital Adequacy Framework under Basel II effectively July 1, 2007. It requires the Bank to maintain a prescribed risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk-weighted assets) of not less than 10.0%.

Under BSP Circular 538, the regulatory qualifying capital of the Bank consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprised common stock, additional paid-in capital and surplus. Tier 2 composed upper tier 2 and lower tier 2. Upper tier 2 consists of preferred stock, revaluation increment reserve, general loan loss provision and deposit for common stock subscription. Lower tier 2 consists of the unsecured subordinated debt.

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

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

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

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

As at December 31, 2014 and 2013, based on the CAR reports submitted to BSP, the Bank's CAR of 22.1% and 22.9%, 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 since July 1, 2007, based on the Basel III and Basel II framework for 2014 and 2013 CAR, respectively.

The breakdown of the Bank's risk-weighted assets as at December 31, 2014 and 2013 as reported to the BSP follows (amounts in thousands):

	2014	2013
Credit risk-weighted assets	**P59,155,029**	P59,016,065
Market-risk weighted assets	**737,583**	1,838,657
Operational risk-weighted assets	**6,194,548**	6,860,118
	P66,087,160	P67,714,840

The Bank is also required to maintain a minimum Tier 1 capital ratio of 7.5% in 2014 and 6.0% in 2013 (in millions) which was complied as per below:

	2014	2013
Tier 1 capital	**P13,986**	P15,406
Tier 2 capital	**624**	112
Total qualifying capital	**14,610**	15,518
Risk-weighted assets	**P66,087**	P67,715
Tier 1 capital ratio	**21.2%**	22.8%
Total capital ratio	**22.1%**	22.9%

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, 16 and 34). For item c, the accounting treatment is based on the provisions of the SPV law.

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

	2014	2013 (As restated - Note 37)
Return on average equity	**8.4%**	7.3%
Return on average assets	**1.0%**	1.0%
Net interest margin on average earning assets	**3.3%**	3.0%

23. Surplus Reserves

	2014	2013
Reserve for trust business	**P82,211,945**	P77,798,908
Reserve for self-insurance	**60,000,000**	60,000,000
	P142,211,945	P137,798,908

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

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

24. Interest Income on Trading and Investment Securities

This account consists of:

	Note	**2014**	2013
Financial assets at FVPL:			
Government securities held for trading		**P55,530,328**	P51,407,978
Quoted other debt securities		**96,183**	96,183
AFS securities:			
Quoted government securities		**547,804,466**	985,120,072
Quoted other debt securities		**94,574,909**	92,683,875
Unquoted debt securities	*9, 36*	**257,573,051**	188,052,169
HTM investments:			
Quoted government securities	*9*	**492,525,197**	-
Quoted other debt securities	*9*	**47,675,171**	-
		P1,495,779,305	P1,317,360,277

Foreign currency-denominated financial assets at FVPL bear EIRs ranging from 2.8% to 9.9% in 2014 and 2013. Peso-denominated financial assets at FVPL bear EIRs ranging from 1.6% to 8.1% in 2014 and 2013.

Foreign currency-denominated AFS securities bear EIRs ranging from 2.3% to 12.5% in 2014 and from 1.0% to 8.4% in 2013. Peso-denominated AFS securities bear EIRs ranging from 2.2% to 14.5% in 2014 and 2013.

Foreign currency-denominated HTM investments bear EIRs ranging from 2.4% to 4.6% in 2014. Peso-denominated HTM investments bear EIRs ranging from 3.3% to 5.5% in 2014 (see Note 9).

25. Service Charges, Fees and Commissions

This account consists of:

	2014	2013
Service charges	**P148,855,667**	P164,100,050
Trust income	**44,709,238**	43,607,931
Penalty charges	**34,029,361**	111,452,699
Letters of credit fees	**7,573,578**	5,299,478
Acceptance fees	**923,641**	812,162
Commitment and other loan-related charges	**-**	60,415,224
Others	**26,882,467**	17,062,344
	P262,973,952	P402,749,888

Others include telegraphic transfer fees and cash advance fee on credit card.

26. Trading and Investment Securities Gains (Losses)

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

	Note	**2014**	2013
Financial assets and liabilities at FVPL:	*8*		
Debt securities			
Realized		**P130,348,961**	P176,474,916
Unrealized		**(2,228,887)**	(6,457,622)
Derivatives			
Unrealized	*36*	**7,448,260**	(12,011,228)
AFS securities	*9, 36*	**190,500,338**	1,699,976,447
HTM investments	*9*	**(3,739,635)**	-
		P322,329,037	P1,857,982,513

27. Retirement Plan

The Bank has a funded noncontributory defined benefit retirement plan covering its regular and permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using projected unit credit method.

The Bank's retirement benefits are based on the employee's years of service and a percentage of his gross monthly salary. An employee shall be retired and shall be entitled to full retirement benefits upon his attainment of 60 years of age.

An employee, upon reaching the age of 50 years and with the completion of no less than 10 years of service as a regular employee and with 30 days prior notice to the Bank, may retire at his option and shall be entitled to the retirement benefits.

An employee who has at least 10 years of service as a regular employee, but who has not reached the age of 50 years, may retire at his option and shall be entitled to the retirement benefits but such retirement benefit shall be subject to the pertinent requirements of the BIR.

The Bank's retirement plan is registered with the BIR as a tax-qualified plan under Republic Act (RA) No. 4917, as amended, and complies with the minimum retirement benefit specified under RA No. 7641, the "New Retirement Law."

The retirement fund is being managed and administered by the Bank's Trust Services Division which is covered by an Investment Management Account (IMA) Agreement (agency relationship).

The date of the last actuarial valuation is December 31, 2014 . Valuations are performed on an annual basis.

As at December 31, 2014 and 2013, the principal actuarial assumptions used in determining retirement benefits liability for the Bank's retirement plan are shown below:

	2014	2013
Average working life	**13.0**	14.0
Discount rate	**4.8%**	5.4%
Future salary increases	**6.6%**	6.6%

The amounts of retirement benefit liability recognized in the statements of income under "Compensation and fringe benefit" account and statements of comprehensive income under "Net change in remeasurement (loss) gain on retirement plan" follow:

	2014	2013
Components of retirement benefit liability recorded in profit or loss		
Current service cost	**P86,728,213**	P77,610,810
Net interest expense:		
Interest expense	**33,872,361**	25,958,235
Interest income	**(26,636,162)**	(19,872,653)
	7,236,199	6,085,582
Past service cost	**-**	69,531,613
	93,964,412	153,228,005
Components of retirement benefit liability recorded in OCI		
Remeasurement loss (gain) on defined benefits obligation	**54,103,665**	(35,955,437)
Remeasurement loss on plan assets	**18,856,804**	5,118,670
	72,960,469	(30,836,767)
Total components of retirement liability	**P166,924,881**	P122,391,238

The net retirement benefit liability (included under "Other liabilities" account) recognized in the statements of financial position follows (see Note 20):

	2014	2013
Present value of defined benefits obligation	**P747,826,876**	P627,265,950
Fair value of plan assets (see Note 33)	**(569,687,721)**	(493,262,261)
	P178,139,155	P134,003,689

The movements of the present value of defined benefits obligation of the Bank follow:

	2014	2013
Balance at beginning of year	**P627,265,950**	P529,759,889
Current service cost	**86,728,213**	77,610,810
Interest expense	**33,872,361**	25,958,235
Past service cost	**-**	69,531,613
Benefits paid	**(54,143,313)**	(39,639,160)
Remeasurement (gains) losses on obligation arising from:		
Change in financial assumptions	**52,951,230**	(39,692,335)
Change in demographic assumptions	**-**	1,261,213
Experience adjustment	**1,152,435**	2,475,685
Balance at end of year	**P747,826,876**	P627,265,950

The movements of the fair value of plan assets of the Bank follow:

	Note	**2014**	2013
Balance at beginning of year		**P493,262,261**	P405,564,356
Interest income		**26,636,162**	19,872,653
Contribution paid by the Bank	*33*	**122,789,415**	112,583,082
Benefits paid	*33*	**(54,143,313)**	(39,639,160)
Remeasurement losses on plan assets		**(18,856,804)**	(5,118,670)
Balance at end of year		**P569,687,721**	P493,262,261

The movements of the remeasurement losses on retirement plan of the Bank follow:

	2014	2013
Balance at beginning of year	**P181,976,206**	P212,812,973
Remeasurement losses (gains) on:		
Defined benefits obligation	**54,103,665**	(35,955,437)
Plan assets	**18,856,804**	5,118,670
	72,960,469	(30,836,767)
Balance at end of year	**P254,936,675**	P181,976,206

The actual return on plan assets amounted to P7.8 million and P14.8 million in 2014 and 2013, respectively.

The Bank expects to contribute P138.2 million to its defined benefits retirement plan in 2015.

The major categories of plan assets, at carrying values follow (see Note 33):

	2014	2013
AFS Securities:		
Government and other debt securities	**P270,205,946**	P270,912,936
Quoted equity securities	**85,559,332**	542,016
Unquoted equity securities	**9,359,152**	10,079,593
Deposits with other banks	**-**	46,403,100
Deposits with the Bank	**186,971,640**	163,265,288
Receivables	**2,906,729**	2,660,947
Total Plan Assets	**P555,002,799**	P493,863,880

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, with all other assumptions constant, would have affected the net retirement liability of the Bank by the amounts shown below:

	Discount Rate		Salary Increase Rate	
	+0.50%	-0.50%	+0.50%	-0.50%
Present value of the defined benefit obligation	P703,314,109	P796,531,458	P792,324,584	P706,651,156
Fair value of plan assets	569,687,721	569,687,721	569,687,721	569,687,721
Net retirement liability	P133,626,388	P226,843,737	P222,636,863	P136,963,435

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

The defined benefit plans expose the Bank to actuarial risks, such as longevity risk, interest risk, and market (investment risk).

The overall investment policy and strategy of the retirement plan is based on the Bank's suitability assessment, as provided by its Trust Services Group, in compliance with the BSP requirements.

The weighted average duration of the defined benefit obligations is equal to the expected average remaining working lives as at December 31, 2014 and 2013.

28. Lease Contracts

Bank as Lessee

The Bank leases the premises occupied by most of its branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable upon mutual agreement between the Bank and the lessors. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 3.0% to 15.0%. Rent expense charged against current operations (included under "Rent and utilities" account in the statements of income) amounted to P313.6 million and P319.7 million in 2014 and 2013, respectively.

There are no contingent rentals and restrictions imposed by lease arrangements as at December 31, 2014 and 2013.

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

	2014	2013
Within one year	**P199.7**	P201.9
After one year but not more than five years	**513.2**	502.9
After five years	**172.4**	182.0

Bank as Lessor
The Bank entered into commercial property leases for office space. These non-cancellable leases have remaining lease terms ranging from 1 to 4 years. As at December 31, 2014 and 2013, there is no contingent rental income. Rent income of the Bank related to these property leases amounting to P10.5 million and P9.3 million in 2014 and 2013, respectively, are shown under "Miscellaneous" of "Other income" account in the statements of income.

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

	2014	2013
Within one year	**P5.8**	P5.1
After one year but not more than five years	**22.4**	19.9

29. Miscellaneous Expenses

	Note	2014	2013
Entertainment, amusement and recreation	*30*	**P171,752,380**	P152,414,320
Bank charges		**78,654,313**	90,729,274
Messengerial services		**48,506,663**	51,892,367
Communications		**48,496,913**	56,646,770
Marketing		**43,184,816**	56,405,410
Litigation and acquired assets - related expenses	*13*	**39,017,784**	46,038,591
Supervision and examination fee		**36,654,954**	41,639,508
Forms and supplies		**26,262,948**	30,094,706
Transportation and travel		**16,596,013**	16,544,991
Others		**81,281,995**	118,253,427
		P590,408,779	P660,659,364

Others include management fee on deposits, subscription fee and membership dues.

30. Income and Other Taxes

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

Regular Banking Unit
Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented under "Taxes and licenses" account in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (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 GS and other deposit substitutes.

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

The regulations also provide for MCIT of 2.0% on modified gross income and allow NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a 3-year period from the year of incurrence.

In addition, Revenue Regulation (RR) No. 10-2002 provides for the ceiling on the amount of entertainment, amusement and representation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. Nondeductible EAR expenses amounted to P122.0 million in 2014 and P142.6 million in 2013. EAR expense is included under "Miscellaneous expenses" account in the statements of income (see Note 29).

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

Foreign Currency Deposit Unit
R.A. 9294, the existing applicable tax regulation governing the taxation of FCDU provides, among others, the following:

- Offshore income or the income derived by FCDUs from foreign currency transactions with nonresidents, Offshore Banking Units (OBUs) in the Philippines, local commercial banks including branches of foreign banks that may be authorized by the BSP to transact business with FCDUs and other depository banks under the foreign currency deposit system shall be exempt from all taxes, except net income from such transactions as may be specified by the Secretary of Finance, upon recommendation by the Monetary Board to be subject to the regular income tax payable by banks.

- Gross onshore income or interest income from foreign currency loans granted by FCDUs to residents through offshore units in the Philippines or other depository banks under the expanded system shall be subject to a final tax at a rate of 10%; and

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

Income tax expense consists of:

	2014	2013 (As restated - Note 37)
Current:		
Final	**P328,804,082**	P253,621,401
MCIT	**41,893,085**	40,433,629
RCIT	**12,473,610**	-
	383,170,777	294,055,030
Deferred	**(305,973,148)**	(51,472,171)
	P77,197,629	P242,582,859

The amount of deferred tax income relates to the origination and reversal of temporary differences.

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

	2014	2013 (As restated - Note 37)
Income before income tax	**P1,407,373,736**	P1,327,155,260
Income tax at statutory rate	**P422,212,121**	P398,146,578
Additions to (reductions in) income taxes resulting from the tax effects of:		
Changes in unrecognized deferred tax assets	**(738,880,671)**	(329,111,905)
Nondeductible expenses	**360,225,308**	678,177,009
Tax paid income	**(163,741,826)**	(81,271,972)
FCDU income	**(61,793,759)**	206,730,323
Nontaxable income	**(60,693,757)**	(608,806,224)
Others	**319,870,213**	(21,280,950)
Effective income tax	**P77,197,629**	P242,582,859

The components of net deferred tax assets and deferred tax liabilities in the statements of financial position follow:

	2014		2013 (As restated - Note 37)	
	Tax Base	**Deferred Tax Asset (Liability)**	Tax Base	Deferred Tax Asset (Liability)
Deferred tax asset recognized in profit or loss:				
Allowance for impairment and credit losses	**P2,525,154,318**	**P757,546,295**	P603,085,850	P180,925,755
NOLCO	**359,761,397**	**107,928,419**	922,094,349	276,628,305
Unrealized loss on foreclosed properties	**194,921,259**	**58,476,378**	207,538,986	62,261,695
Retirement liability	**136,015,453**	**40,804,636**	164,840,456	49,452,137
MCIT	**82,148,910**	**82,148,910**	62,934,594	62,934,594
Accrued rent expense	**66,747,378**	**20,024,213**	72,559,404	21,767,821
Other accrued expenses	**178,501,129**	**53,550,339**	184,553,444	55,366,033
	3,543,249,844	**1,120,479,190**	2,217,607,083	709,336,340

	2014		2013 (As restated - Note 37)	
	Tax Base	**Deferred Tax Asset (Liability)**	Tax Base	Deferred Tax Asset (Liability)
Deferred tax liability recognized in profit or loss and OCI:				
Unrealized gain on foreclosed properties	**(P1,692,369,567)**	**(P507,710,870)**	(P1,304,103,127)	(P391,230,938)
Revaluation increment on property	**(698,053,801)**	**(209,416,140)**	(46,637,198)	(13,991,159)
Gain on investment properties sold under installments	**(211,107,696)**	**(63,332,309)**	(254,926,667)	(76,478,000)
Unrealized foreign exchange gain	**(6,828,265)**	**(2,048,480)**	(510,062)	(153,019)
Valuation gain on derivatives and financial assets carried at FVPL	**-**	**-**	(200,000)	(60,000)
	(2,608,359,329)	**(782,507,799)**	(1,606,377,054)	(481,913,116)
Net deferred tax assets	**934,890,515**	**337,971,391**	611,230,029	227,423,224
Less amount recognized in OCI:				
Revaluation increment on property	**(698,053,801)**	**(209,416,140)**	(46,637,198)	(13,991,159)
Amount recognized in profit or loss	**P1,632,944,316**	**P547,387,531**	P657,867,227	P241,414,383

The movement in deferred tax account is summarized as follows:

	2014	2013 (As restated - Note 37)
At January 1	**P227,423,224**	(P309,124,922)
Amounts credited to profit or loss	**305,973,148**	51,472,171
Amounts (charged against) credited to OCI	**(195,424,981)**	485,075,975
At December 31	**P337,971,391**	P227,423,224

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, 2014	
	Deductible Temporary Differences	**Deferred Tax Assets**
Allowance for impairment and credit losses	**P2,888,926,943**	**P866,678,083**
NOLCO	**421,444,349**	**126,433,305**
MCIT	**22,678,769**	**22,678,769**
Unrealized loss on financial assets at FVPL	**6,051,888**	**1,815,566**
Others	**120,872,704**	**36,261,811**
	P3,459,974,653	**P1,053,867,534**

	December 31, 2013 (As restated - Note 37)	
	Deductible Temporary Differences	Deferred Tax Assets
Allowance for impairment and credit losses	P5,303,324,560	P1,590,997,368
NOLCO	337,266,782	101,180,035
MCIT	33,985,597	33,985,597
Unrealized loss on financial assets at FVPL	4,373,830	1,312,149
Others	217,576,852	65,273,056
	P5,896,527,621	P1,792,748,205

Details of the Bank's RBU NOLCO and MCIT as at December 31, 2014 follow:

NOLCO

Inception Year	Amount	Expired	Balance	Expiry Year
2011	P837,916,782	(P837,916,782)	P -	2014
2012	421,444,349	-	421,444,349	2015
2014	359,761,397	-	359,761,397	2017
	P1,619,122,528	(P837,916,782)	P781,205,746	

MCIT

Inception Year	Amount	Expired	Balance	Expiry Year
2011	P33,985,597	(P33,985,597)	P -	2014
2012	22,678,769	-	22,678,769	2015
2013	40,255,825	-	40,255,825	2016
2014	41,893,085	-	41,893,085	2017
	P138,813,276	(P33,985,597)	P104,827,679	

As at December 31, 2014 and 2013, the Bank's FCDU MCIT amounted to nil and P0.2 million, respectively.

31. Commitments and Contingencies

In the normal course of operations, the Bank makes various commitments, such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. The Bank does not anticipate any material losses as a result of these transactions.

The following is a summary of the Bank's commitments and contingencies at their peso equivalent contractual amounts arising from off-books accounts as at December 31, 2014 and 2013:

	2014	2013
Contingent assets:		
Future/spot exchange bought	**P357,760,000**	P643,727,500
Fixed income securities purchased	**92,757,675**	1,874,797
Outward bills for collection	**435,138**	313,160
	P450,952,813	P645,915,457

	Note	**2014**	2013
Commitments and contingent liabilities:			
Trust department accounts	*32*	**P20,617,044,977**	P8,074,884,609
Future/spot exchange sold		**1,207,440,000**	2,419,527,500
Unused commercial letters of credit		**258,931,866**	483,070,106
Late deposits/payments received		**93,520,249**	73,591,048
Outstanding guarantees		**92,265,189**	47,241,417
Items held for safekeeping/securities held as collateral		**45,502**	63,114
Fixed income securities sold		**92,757,675**	1,874,797
		P22,362,005,458	P11,100,252,591

The Bank has several loan-related suits and claims that remain unsettled. It is not practicable to estimate the potential financial impact of these contingencies. However, in the opinion of management, in consultation with its legal counsels, the suits and claims, if decided adversely, will not involve sums having a material effect on the Bank's financial statements.

Other Commitments

The table below summarizes the assets pledged by the Bank to secure outstanding liabilities (in thousands):

	Carrying Amount		Fair Value		Related Liability	
	2014	2013	**2014**	2013	**2014**	2013
AFS securities	**P1,632,022**	P1,391,439	**P1,632,022**	P1,391,439	**P -**	P110,987
Loans and receivables - net	**-**	106,277	**-**	106,277	**-**	159,023
	P1,632,022	P1,497,716	**P1,632,022**	P1,497,716	**P -**	P270,010

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

32. Trust Assets

Securities and other properties (other than deposits) held by the Bank in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Bank (see Note 31). Total assets held by the Bank's Trust Services Division amounted to P20.6 billion and P8.1 billion as at December 31, 2014 and 2013, respectively.

In compliance with the requirements of current banking regulations relative to the Bank's trust functions, GS with a face value of P206.1 million and P367.6 million, which have been included under "AFS securities" (see Note 9), are deposited with BSP in 2014 and 2013, respectively.

33. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities.

In the ordinary course of business, the Bank has various transactions with its related parties and with certain directors, officers, stockholders and related interests (DOSRI). These transactions usually arise from normal banking activities such as lending, borrowing, deposit arrangements and trading of securities, among others. Under existing policies of the Bank, transactions with related parties are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under current banking regulations, the amount of individual loans to DOSRI, of which 70.0% must be secured, should not exceed the amount of their respective unencumbered deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the lower of the Bank's total regulatory capital or 15.0% of the total loan portfolio. On March 15, 2004, the BSP issued Circular 423 which provides for the amended definition of DOSRI accounts.

The following table shows information relating to DOSRI loans:

	2014	2013
Total outstanding DOSRI loans	**P5,484,563**	P1,106,238,611
Percent of DOSRI loans to total loans	**0.0%**	2.4%
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 follow:

	2014	2013
Deposit liabilities	**P4,265,425,657**	P2,286,081,923
Interest expense	**4,490,587**	1,977,485

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.

On December 6, 2010, BSP Circular No. 700 was issued amending the regulations on Single Borrower's Limit. Based on the amendment, the total amount of loans, credit accommodations and guarantees may be increased by an additional 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 (PPP) 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 25% of the Bank's net worth and that it shall only be allowed for a period of 3 years from the effectivity of the Circular. BSP Circular No. 700 is effective on December 21, 2010.

On January 9, 2013, BSP Circular No. 779 further amended the regulations that the total exposures of the Bank to any borrower pertaining to the PPP program shall only be allowed for a period of 6 years from December 28, 2010 and that the credit risk concentration arising from total exposures to all borrowers pertaining to such infrastructure and/or development projects under the PPP program shall be considered by the bank in its internal assessment of capital adequacy relative to its overall risk profile and operating environment. Said loans, credit accommodations and guarantees based on the contracted amounts as at the end of the 6-year period shall not be increased but may be reduced and once reduced, said exposures shall not be increased thereafter. BSP Circular No. 779 is effective on January 24, 2013.

On July 5, 2013, BSP Circular No. 803 amends further that the total amount of loans, credit accommodations and guarantees may be increased by an additional 15% of the net worth of the bank, provided that these are granted to finance oil importation of oil companies which are not affiliates of the lending bank engaged in energy and power generation and that the oil companies qualify under the credit underwriting standards of the lending bank and the lending bank shall comply with Subsection X301.6 on the guidelines in managing large exposures and credit accommodation. Provided, further, that the credit concentration arising from total exposures to all oil companies shall be considered by the bank in its internal assessment of capital adequacy relative to its overall risk profile and operating environment and shall be incorporated in the Internal Capital Adequacy Assessment Process (ICAAP) document required to be submitted under Section X117 and that the additional 15% shall only be allowed for a period of 3 years from March 3, 2011 or, until March 3, 2014. Said additional loans, credit accommodations and guarantees outstanding as at the end of the 3-year period and in excess of 25% of the lending bank's net worth shall not be increased but shall be reduced and once reduced, said exposures shall not be increased thereafter. BSP Circular No. 803 is effective on July 20, 2013.

Details on significant related party transactions of the Bank follow:

	As at and For the Year Ended December 31, 2014		
Category	**Amount/ Volume** (in thousands)	**Outstanding Balance** (in thousands)	**Nature, Terms and Conditions**
Affiliates and other related parties			
Unquoted AFS Securities		**P17,174**	12% equity interest in BANGE
Investment in associate		**54,614**	24.25% equity interests in BIC
Receivable from customers		**24,503,846**	Short-term lending with interest rates ranging from 2.5% to 5.1% with maturity terms from 38 days to 90 days; Term loans with maturity of more than one year; Unsecured and not impaired
Availments	**P60,147,143**		Generally similar to terms and conditions above
Settlements	**52,573,872**		Generally similar to terms and conditions above
Loan-related receivables		**305,219**	Interest on receivables from customers and other receivables from sale of foreclosed assets
Sales contracts receivable		**5,485**	With annual interest of 6.3% and term of more than one year
Deposit liabilities		**4,265,426**	With annual interest rates ranging from 0.3% to 0.9%
Total deposits	**2,253,057,847**		Generally similar to terms and conditions above
Total withdrawals	**1,540,038,885**		Generally similar to terms and conditions above
Accrued interest payable		**775**	Interest on deposit liabilities
Interest income	**1,397,576**		Interest income on receivable from customers and sales contracts receivable
Gain on sale of foreclosed assets	**26,939**		Gain from sale of foreclosed assets
Miscellaneous income	**8,704**		Dividend income on Unquoted AFS; Securities and penalties on loans
Management and professionals fees	**17,026**		Professional fees for assistance in tax assessment
Interest expense	**4,491**		Interest expense on deposit liabilities
Share in net income of associate	**883**		Share in net income of BIC

	As at and For the Year Ended December 31, 2013		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Affiliates and other related parties			
Unquoted AFS Securities		P19,216	12% equity interest in BANGE
Investment in associate		51,682	24.25% equity interests in BIC
Receivable from customers		14,224,842	Short-term lending with interest rates ranging from 2.95% to 5.75% with maturity terms from 29 days to 50 days; Term loans with maturity of more than one year; Unsecured and not impaired
Availments	P45,295,594		Generally similar to terms and conditions above
Settlements	42,057,650		Generally similar to terms and conditions above
Loan-related receivables		191,741	Interest and penalties on receivable from customers
Sales contracts receivable		6,239	With annual interest of 6.3% and term of more than one year
Deposit liabilities		2,286,082	With annual interest rates ranging from 0.3% to 0.8%
Total deposits	1,562,301,245		Generally similar to terms and conditions above
Total withdrawals	1,115,958,031		Generally similar to terms and conditions above
Accrued interest payable		260	Interest on deposit liabilities
Interest income	P644,643		Interest income on receivable from customers and sales contracts receivable
Miscellaneous income	57,546		Dividend income on Unquoted AFS; Securities and penalties on loans
Interest expense	1,977		Interest expense on deposit liabilities
Share in net loss of associate	(4,764)		Share in net loss of BIC

Affiliates are other companies with more than 10% but not more than 50% of its voting stock is owned or controlled directly or indirectly, through 1 or more intermediaries, by the Bank.

The related party transactions shall be settled in cash. The outstanding balances of related party transactions are not impaired as at December 31, 2014 and 2013.

Transactions with Retirement Plans

The Bank's retirement plan is managed and administered by the Bank's Trust Services Division which is covered by an IMA Agreement (agency relationship). The fair values and carrying values of the plan amounted to P569.7 million and P555.0 million, respectively, in 2014 and P493.3 million and P493.9 million, respectively, in 2013 (see Note 27).

Related information on assets/liabilities and income/expense of the funds as at and for the years ended December 31, 2014 and 2013 follow:

	2014	2013
AFS securities:		
Government and other debt securities	**P270,205,946**	P270,912,936
Quoted equity securities	**85,559,332**	542,016
Unquoted equity securities	**9,359,152**	10,079,593
Deposits with other banks	**-**	46,403,100
Deposits with the Bank	**186,971,640**	163,265,288
Receivables	**2,906,729**	2,660,947
Total Plan Assets	**P555,002,799**	P493,863,880
Trust fee payable	**P352,998**	P601,601
Other liabilities	**100**	18
Total Plan Liabilities	**P353,098**	P601,619

Plan Income	**2014**	2013
Interest income	**P15,621,402**	P17,808,016
Dividend income and others	**1,171,912**	38,653
	P16,793,314	P17,846,669
Plan Expense		
Provision (reversal) for probable losses on equity securities	**(P11,920,321)**	P1,494,951
Trust fees	**1,305,818**	1,140,151
Other expenses	**16,633**	4,451
	(P10,597,870)	P2,639,553

As at December 31, 2014 and 2013, the retirement plan of the Bank includes 73,067 shares of the Bank classified under AFS equity securities. The allowance for probable losses on the retirement plan's shares of the Bank amounted to P12.6 million and P11.9 million as at December 31, 2014 and 2013, respectively. Limitations and restrictions are covered by the IMA Agreement and anything outside the IMA Agreement must be explicitly authorized by the Board of Trustees (BOT).

As at December 31 2013, Deposits with other banks pertain to SDA placements with Union Bank and BSP. As at December 31, 2014 and 2013, receivables include accrued interest on deposit with the Bank amounting to P119,056 and P101,934, respectively. Interest income on deposit with the Bank amounted to P2,150,034 and P483,746 as at December 31, 2014 and 2013, respectively. Investments are subject to the limitations of the agreement and all other actions pertaining to the fund are to be executed only upon explicit authority by the BOT of the fund.

As at December 31, 2014 and 2013, the Bank's contribution to its defined benefits retirement plan amounted to P122.8 million and P112.6 million, respectively. Benefits paid out of the Bank's plan assets amounted to P54.1 million and P39.6 million in 2014 and 2013, respectively (see Note 27).

Compensation of Key Management Personnel of the Bank

The remuneration of directors and other members of key management included in the "Compensation and fringe benefits" account in the statements of income for the years ended December 31, 2014 and 2013 follows:

	2014	2013
Short-term employee benefits	**P409,996,917**	P370,717,914
Post-employment benefits	**36,079,535**	30,397,432
	P446,076,452	P401,115,346

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

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

a. TRB sold and transferred, in favor of the Bank, identified recorded assets owned by TRB both real and personal, or in which TRB has title or interest, and which are included and deemed part of the assets listed and referred to in TRB's Consolidated Statement of Condition (CSOC) as at August 31, 2001. The said assets are inclusive of the banking goodwill of TRB, bank premises, licenses to operate its head office and branches, leasehold rights and patents used in connection with its business or products. In consideration of the sale of identified recorded assets, the Bank assumed identified recorded TRB liabilities including contingent liabilities as listed and referred to in its CSOC as at August 31, 2001. The liabilities assumed do not include the liability for the payment of compensation, retirement pay, separation benefits and any labor benefits whatsoever arising from, incidental to, or connected with employment in, or rendition of employee services to TRB, whether permanent, regular, temporary, casual or contractual and items in litigation, both actual and prospective, against TRB.

b. The Bank is allowed to avail of certain BSP incentives including but not limited to the following: (a) full waiver of the liquidated damages on the emergency loan of TRB and penalties related to reserve deficiencies and all other outstanding penalties at the time of acquisition may be paid over a period of one year, (b) relocation of branches shall be allowed within one year from the date of the BSP approval of the PSA. Relocation shall be allowed in accordance with BSP Circular No. 293. The 90-day notice requirement on branch relocation has been waived, and (c) availment of rediscounting facility window subject to present BSP regulations.

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

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

Settlement of Liabilities of TRB

Part of the liabilities of TRB assumed by the Bank includes 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 6.0% simple interest per annum plus 50.0% of rental rates based on prevailing rates in the locality as mutually agreed by the parties with a 4.3% yearly increment.

c. Any gain on sale of the dacion properties within the 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.

   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 at June 30, 2001, which should have been paid by PDIC under a closure scenario. The proceeds of the loan were used to purchase a 20-year GS with a coupon rate of 15.0% per annum (included in AFS securities) 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) shall be used to offset on a staggered basis, for prudential reporting purposes, against TRB's unbooked valuation reserves on NPAs with a total face value of P4.5 billion, which was approved by the BSP to be booked as "Miscellaneous assets". Under PFRS, the impairment losses on the NPAs amounting to P4.5 billion were charged in full in the period incurred (see Notes 15 and 37).

   On November 29, 2013, the Bank fully settled its loan from PDIC amounting to P1.8 billion (see Note 18).

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 at December 31, 2002, a portion of the additional operating losses of TRB amounting to P227.2 million was approved by the BSP and PDIC to be included as additional miscellaneous assets. On April 28, 2003, the BSP approved the deferral of operating losses amounting to P596.4 million (instead of P595.6 million which was previously negotiated by the Bank and P227.2 million which was previously approved by the BSP) thereby increasing the TRB-related bookings to miscellaneous assets to P4.5 billion (see Note 15). NPL included under miscellaneous assets comprised TRB's loans amounting to P3.1 billion as at August 31, 2001 which is excluded in the determination of financial ratios, provisioning and computation of CAR based on the agreed term sheet. Also, BSP considered these miscellaneous assets as non-risk assets and are not subject to classification.

Under PFRS, the impairment losses on the NPAs amounting to P4.5 billion were charged in full in the period incurred (see Notes 15 and 37).

For prudential reporting purposes to the BSP, the Bank continues to recognize the P4.5 billion impairment losses on a staggered basis as provided under MB No. 1950. The Bank recognized net interest income amounting to P159.3 million in 2013 from the FAA. In accordance with the PSA entered by the Bank and TRB, the increase on allowance for impairment losses amounting to P168.9 million and P159.3 million in 2014 and 2013, respectively, was reported to the BSP as charges to profit or loss.

35. Notes to Statements of Cash Flows

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

	2014	2013
Noncash investing activities:		
Additions to investment properties in settlement of loans	**P544,451,123**	P158,027,698
Increase in sales contracts receivable from sale of investment properties	**161,917,800**	92,324,315

36. Structured Notes

Structured notes pertain to the host contracts of debt securities issued by foreign counterparty banks, included under "AFS securities" account (see Notes 9 and 24) and "Loans and receivables - net" account (see Note 10) and derivative contracts of debt securities issued by foreign counterparty banks, included under "Financial assets and liabilities at FVPL" account (see Note 8), which contain features such as leveraged interest, prepayments options and credit linkage. These notes have various maturities with the farthest note maturing in 2042. These structured notes (credit linked note, leveraged credit linked note and collateralized debt obligation) have payoffs that are linked to the changes in the credit quality of specific reference assets most of which are Republic of the Philippines (ROP) bonds. Thus, when a credit event happens, these notes are terminated and the Bank either obtains the underlying reference asset or receives cash settlement equal to the fair value of underlying asset at the time of settlement adjusted for unwinding costs. The Bank, therefore, may lose all or substantially all of the principal invested.

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.

In 2014 and 2013, the Bank liquidated several structured notes with face value of $71.5 million and $34.0 million (equivalent to P3.1 billion and P1.4 billion), respectively. The related net trading losses on termination of these financial instruments amounted to nil and $9.5 million (equivalent to P421.1 million) in 2014 and 2013, respectively, are included in "Trading and investment securities gains - net" account in the statements of income (see Note 26). The Bank reversed the related embedded derivatives assets and liabilities amounting to P2.8 million and P10.2 million, respectively, in 2014 and P48.3 million and P37.3 million, respectively in 2013 (see Note 8).

37. Change in Accounting Policy, Full Recognition of SPV Losses and Impairment Losses on Certain Assets Acquired from TRB

In 2014, the Bank restated its December 31, 2013 and January 1, 2013 statements of financial positions and December 31, 2013 statements of income to effect the following:

a. change in accounting policy on measurement of investment properties from Cost Model to Fair Value Model as allowed under PAS 40 *Investment Properties*;
b. full recognition of losses incurred on sale of NPAs to SPV in 2007 and 2005 in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* (see Note 15); and
c. full recognition of impairment losses on certain assets acquired from TRB determined to be impaired (see Notes 15 and 34).

The Bank's deferral of the recognition of loss on the sale of NPAs to SPV and impairment losses on certain assets acquired from TRB was subject of the qualification of the auditor's report issued on the Bank's financial statements since 2002. The loss on the sale to SPV, which amounted to P1.9 billion, was allowed under the regulations issued by the BSP for banks and financial institutions availing the provisions of R.A. No. 9182 to be deferred and amortized over 10 years. The staggered recognition of impairment losses on certain assets acquired from TRB, which amounted to P4.5 billion, was allowed and approved by the BSP pursuant to the FAA between the Bank and the PDIC and pursuant to MB Resolution No. 1950. Prior to restatement, the unamortized portion of the loss and unbooked impairment losses were reported under "Other assets" account in the statements of financial position and the yearly amortization of loss and impairment loss is charged against profit or loss.

The table below shows the reconciliation of previously reported and restated balances of financial statements affected by the restatements as discussed above:

December 31, 2013	As Previously Reported		Prior-period Adjustments	As Restated
Statement of financial position				
Investment properties	P2,576,945,375	*a, b*	P1,285,266,739	P3,862,212,114
Deferred tax assets - net	526,925,524	*f*	(299,502,300)	227,423,224
Other assets	4,708,366,529	*c, d, e*	(3,243,156,900)	1,465,209,629
Total Assets	P121,137,286,903		(P2,257,392,461)	P118,879,894,442
Deficit	(2,674,765,582)		(2,257,392,461)	(4,932,158,043)
Total Equity	P16,697,147,406		(P2,257,392,461)	P14,439,754,945
Statement of income				
Fair value gain from investment properties	P -	*b*	P42,856,580	P42,856,580
Gains on foreclosure, and sale of property and equipment and foreclosed assets - net	245,839,794	*b*	(115,437,743)	130,402,051
Provision for credit and impairment losses	700,141,658	*b, d, e*	(437,676,395)	262,465,263
Depreciation and amortization	303,582,305	*b*	(21,997,179)	281,585,126
Income tax expense	252,205,481	*f*	(9,622,622)	242,582,859
Net income	P687,857,368		P396,715,033	P1,084,572,401

January 1, 2013	As Previously Reported		Prior-period Adjustments	As Restated
Statement of financial position				
Investment properties	P2,677,905,303	*a*	P1,324,545,160	P4,002,450,463
Other assets	5,193,669,459	*c*	(3,669,527,732)	1,524,141,727
Total Assets	P93,141,289,120		(P2,344,982,572)	P90,796,306,548
Deferred tax liabilities - net	-	*f*	309,124,922	309,124,922
Total Liabilities	P75,199,123,978		P309,124,922	P75,508,248,900
Deficit	(3,365,227,271)		(2,654,107,494)	(6,019,334,765)
Total Equity	P17,942,165,142		(P2,654,107,494)	P15,288,057,648

The nature of the prior period adjustments as shown in the table above is as follows:

Investment Properties

a. Recognition of fair value gain, reversal of accumulated depreciation and allowance on impairment losses on investment properties amounting to P1.3 billion offset against 2012 deficit;
b. Recognition of fair value gain amounting to P42.9 million, reversal of depreciation expense, impairment losses and gain on sale amounting to P22.0 million, P11.3 million and P120.2 million, respectively, and recognition of foreclosure gains amounting to P4.7 million charged to 2013 operations.

Other Assets

c. Full recognition of SPV losses amounting to P0.9 billion and impairment losses on certain assets acquired from TRB amounting to P2.8 billion debited to 2012 deficit;
d. Reversal of amortization of loss on sale to SPV amounting to P267.1 million charged to 2013 operations; and
e. Reversal of impairment loss amounting to P159.3 million charged to 2013 operations.

Deferred Tax Assets and Liabilities

f. The tables below shows the reconciliation of previously reported and restated composition of net deferred assets affected by the restatements as discussed above:

December 31, 2013	As Previously Reported	Prior-period Adjustments	As Restated
Deferred tax assets on:			
Unrealized loss on foreclosed properties	P149,369,755	(P87,108,060)	P62,261,695
Accumulated depreciation on investment properties	36,041,827	(36,041,827)	-
Deferred tax assets	832,486,227	(123,149,887)	709,336,340
Deferred tax liabilities on:			
Unrealized gain on foreclosed properties	(214,878,525)	(176,352,413)	(391,230,938)
Deferred tax liabilities	(305,560,703)	(176,352,413)	(481,913,116)
Net deferred tax assets	P526,925,524	(P299,502,300)	P227,423,224

January 1, 2013	As Previously Reported	Prior-period Adjustments	As Restated
Deferred tax assets on:			
Unrealized loss on foreclosed properties	P156,089,019	(P97,332,280)	P58,756,739
Accumulated depreciation on investment properties	33,563,587	(33,563,587)	-
Deferred tax assets	814,819,402	(130,895,867)	683,923,535
Deferred tax liabilities on:			
Unrealized gain on foreclosed properties	(225,147,663)	(178,229,055)	(403,376,718)
Deferred tax liabilities	(814,819,402)	(178,229,055)	(993,048,457)
Net deferred tax liabilities	P -	(P309,124,922)	(P309,124,922)

The Bank did not recognize deferred tax assets on allowance for impairment losses on certain assets acquired from TRB amounting to P2.4 billion as at December 31, 2013 and January 1, 2013 (see Note 30).

The effects on deficit of the restatements discussed in the preceding paragraphs are summarized below:

Deficit	December 31, 2013	January 1, 2013
As previous reported	(P2,674,765,582)	(P3,365,227,271)
Prior-period adjustments:		
Change in accounting policy on investment properties, net of deferred tax	985,764,439	1,015,420,238
Correction of the accounting treatment on loss on sale to SPV	(606,519,132)	(873,610,797)
Full provisioning on certain assets acquired from TRB	(2,636,637,768)	(2,795,916,935)
	(2,257,392,461)	(2,654,107,494)
As restated	(P4,932,158,043)	(P6,019,334,765)

38. Events After the Reporting Date

On January 30, 2015, the BOD approved the write-off of several structured notes which are deemed worthless and have no possibility of collection, with total face value and carrying value of $10.0 million (equivalent to P447.2 million) and nil, respectively, as at December 31, 2014.

39. Reclassification

In 2014, the Bank reclassified certain accounts in the statements of income in order to better reflect the nature of the accounts. Accordingly, the Bank also reclassified the comparative figures in 2013.

	As Previously Reported	Reclassification	As Reclassified
Compensation and fringe benefits	P1,392,055,412	P8,182,873	P1,400,238,285
Taxes and licenses	471,726,857	59,120,513	530,847,370
Miscellaneous	727,962,750	(67,303,386)	660,659,364

a. Real estate taxes relating to investment properties amounting to P59.1 million was reclassified from “Miscellaneous” to “Taxes and licenses”; and
b. Salaries and other employee-related expenses amounting to P8.2 million was reclassified from “Miscellaneous” to “Compensation and fringe benefits”.

The above reclassifications have no effect on the reported profit or loss, total income and expenses or the net assets for the period reported.

40. Supplementary Information Required by the Bureau of Internal Revenue (BIR)

The BIR has issued RR No. 15-2010 which requires certain tax information to be disclosed in the notes to financial statements. The Bank reported and/or paid the following types of taxes for the year:

A. Other Taxes and Licenses

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

Details consist of the following:

	December 31, 2014
Documentary stamp tax	**P282,529,986**
Gross receipts tax	**162,550,264**
License and permit fees	**39,179,525**
Capital gains tax	**33,968,783**
Creditable withholding tax	**28,195,114**
Real estate taxes	**20,235,139**
Transfer taxes	**2,308,474**
Others	**8,959,544**
	P577,926,829

B. Withholding Taxes

Details of withholding taxes for the year follow:

Tax on compensation and benefits	**P229,410,259**
Final withholding taxes	**149,426,795**
Expanded withholding taxes	**41,742,344**
	P420,579,398

C. Deficiency Tax Assessments

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

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

Management, in consultation with its legal counsels, believes that the deficiency tax assessment above is without legal basis. Accordingly, the Bank has filed abatement on January 27, 2006 for the closure of the case. The said abatement is pending decision by the BIR.

D. Tax Cases

As at December 31, 2014, the Bank has the following outstanding tax cases currently being resolved at the Supreme Court level:

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

Branch & ATM Directory

METRO MANILA	ATMs	BRANCHES
Caloocan	5	2
Las Pinas	5	1
Makati	13	12
Malabon	3	2
Mandaluyong	10	1
Manila	21	13
Marikina	5	2
Muntinlupa	4	1
Parañaque	4	3
Pasay	7	2
Pasig	6	3
Quezon City	33	15
San Juan	1	1
Taguig	5	2
Valenzuela	3	1
LUZON		
Albay	2	1
Bataan	3	1
Batangas	7	4
Benguet	4	1
Bulacan	4	2
Cagayan	2	1
Camarines Sur	1	1
Cavite	4	2
Ilocos Norte	1	1
Ilocos Sur	4	2
La Union	5	1
Laguna	12	3
Nueva Ecija	1	1
Oriental Mindoro	1	1
Palawan	1	1
Pampanga	12	3
Pangasinan	7	3
Quezon	1	1
Rizal	6	2
Tarlac	1	1
Zambales	6	3
VISAYAS		
Aklan	3	1
Bohol	1	1
Capiz	1	1
Cebu	16	7
Iloilo	4	3
Leyte	2	2
Negros Occidental	6	3
Negros Oriental	1	1
MINDANAO		
Agusan Del Norte	4	1
Bukidnon	2	1
Davao Del Sur	5	3
Misamis Oriental	4	2
South Cotabato	2	1
Zamboanga Del Sur	3	2
Total	264	125

METRO MANILA

MAKATI AREA

AYALA
G/F IAcademy Bldg.,
6764 Ayala Ave., Makati City
891-3814 / 810-0651 /
219-02-55 (fax)

BEL-AIR PETRON
Bel-Air Petron Square, 363
Sen. Gil Puyat Ave.
Bgy. Bel-Air, Makati City
898-2309 / 219-0279 /
896-7085 (telefax)

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

BONIFACIO HIGH STREET
G/F Active Fun Bldg.,
9th Ave Cor. 28th St.
Fort Bonifacio, Taguig City
779-8023 / 779-8024 (telefax)

DELA COSTA-ALFARO
G/F Don Chua Lamko Bldg.
Dela Costa cor. Leviste St.,
Salcedo Village, Makati City
840-2789 / 261-0762 /
840-2719 (telefax)

DELA ROSA
G/F 2129 King's Court II Bldg.
Dela Rosa St. Cor.
Chino Roces Ave., Makati City
831-7156 / 831-7155 (telefax)

JUPITER
64/66 Jupiter St.,
Brgy. Bel-Air, Makati City
828-4397 / 869-8812 /
219-0258 (fax)

MAKATI AVE - ZUELLIG
Unit 2, G/F Zuellig Bldg.
Makati Ave. Cor.
Paseo de Roxas Ave
and Sta. Potenciana St.
Makati City
961-7628 / 219-0127 /
961-8364 (telefax)

PASAY ROAD
Cedar Executive Bldg.,
1006 A. Arnaiz Ave.,
(Pasay Road) San Lorenzo
Village, Makati City
840-5612 / 840-5640 /
576-5035 / 840-5640 (telefax)

PASONG TAMO EXT.
OPVI Centre, 2295
Pasong Tamo Extension,
Makati City
892-9700 / 219-0271 /
817-9300 (telefax)

ROCKWELL
P1 Councourse Level,
The Power Plant Mall,
Rockwell Center, Makati City
898-1523 / 219-0114
898-1522 (fax)

SALCEDO
G/F, Aguirre Bldg., Tordesillas
Cor. H.V. dela Costa Sts.,
Salcedo Village, Makati City
813-2220 / 813-2734 (telefax)

MANILA NORTH AREA

BANAWE
128-B, WAS Bldg., Banawe St.,
Quezon City
711-9454 / 711-9456 / 711-9428

E. RODRIGUEZ
E. Rodriguez Sr. Ave. cor.
84 Hemady St., Brgy. Mariana,
New Manila, Quezon City
705-1943 / 722-2197 / 722-2379

FAIRVIEW PETRON
Petron Fairview
Commonwealth Ave.,
Fairview, Quezon City
3761023 / 219-0252
3761025 (Fax)

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

MALABON
29 Gov. Pascual Acacia Ave.
Malabon City, Metro Manila
291-0254 / 446-7385 /
288-7571 (telefax)

MALABON-GEN. LUNA
55 Gen. Luna St., San Agustin,
Malabon City
441-0977 / 332-5392 / 219-0235

QUEZON AVE.
Sto. Domingo Church Compound
8 Biak na Bato St. cor.
Quezon Ave., Quezon City
732-8360 / 712-2560 /712-2534

VALENZUELA
Units 12 & 13 PureGold Price
Club, Brgy. Dalandanan, McArthur
Highway, Valenzuela City
794-6058 / 794-6063 / 322-2260

MANILA SOUTH AREA

ALABANG
Unit 6 El Molito II Bldg.,
Madrigal Ave., Alabang,
Muntlinlupa City
850-8718 / 219-0121 /
850-1574 (fax)

B.F. HOMES
33 President's Ave.,
Brgy. BF Homes
Parañaque City
403-8941 / 219-0149 (telefax)

BICUTAN
35 Doña Soledad Ave.,
Better Living Subd.
Parañaque City
(02) 219-0129 / 776-4146
823-2321 (fax)

DASMARIÑAS, CAVITE
Veluz-Frances Plaza Bldg.,
Aguinaldo Highway,
Dasmarinas, Cavite
Manila line: (02) 529-8129
(telefax) /
Cavite line: (046) 416-2335

LAS PIÑAS
Elena Bldg. Real St.,
Alabang-Zapote Road
Pamplona, Las Pinas City
556-1507 / 556-1501 /
556-1500

MAGALLANES
Ground floor, Tritan Plaza Bldg.
Paseo de Magallanes,
Makati City
851-1424 / 219-0153 /
854-9611 (telefax)

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

NAIA 3
Stall 14, Arrival Lobby
NAIA Terminal 3 Complex
Pasay City
833-7295 / 833-7293 (telefax)

ROSARIO
General Trias Drive
Bgy. Poblacion, Rosario, Cavite
(046) 402-2062 / (046) 438-8451 /
(046) 512-3218 (telefax)

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

SUCAT
Fortuna II Bldg.
8338 Dr. A. Santos Ave.
Sucat, Parañaque City
826-8415 / 219-0169 /
820-7747(fax)

MANILA WEST AREA

ADUANA
G/F FEMII (Main) Bldg.A.
Soriano St., Aduana
Intramuros Manila
527-2893 / 526-8959 /
219-0180 / 527-2947 (fax)

ERMITA
1312 A. Mabini St.
Ermita, Manila
254-7549 / 254-7545 to 46 /
219-0178

PORT AREA
G/F Mary Bachrach cor. 25th
& A.C. Delgado St.
Port Area, Manila
527-7989 / 527-7987 to 88

RESORTS WORLD
G/F Resorts World Complex
Newport City, Pasay City
239-5860 / 239-5848 /
551-3520 to 21 / 521-9134 (fax)

ROXAS BLVD.
Kanlaon Towers, Roxas Blvd.
Pasay City
851-2680 / 219-0185 /
854-4071 (fax)

TAFT AVE - LA SALLE
G/F Endriga Bldg.
2270 Taft Ave., Malate
523-2297 / 219-0194 /
521-9130

TAFT AVE - PADRE FAURA
Don Santiago Bldg.
Taft Ave., Manila
536-4959 / 536-4959 /
219-0199 / 526-6049 (fax)

UNITED NATIONS
429 Victoria Bldg.,
United Nations Ave.,
Ermita, Manila
526-0590 / 219-0226 /
521-8663 (fax)

MANILA EAST AREA

CAINTA
40 Felix Ave., San Isidro
Cainta, Rizal
682-8524 / 219-0214 / 682-6243
(telefax)

CONCEPCION
A.M.PACLEB Bldg.
52 Bayan-Bayanan Ave.
Concepcion, Markina City
941-0714 / 219-0125 /
942-0429 (telefax)

EASTWOOD PETRON
188 E. Rodriguez Jr. Ave.
(C-5), Bagumbayan
Quezon City
654-0084 / 211-9543 /
655-1204 (telefax)

GREENHILLS
Eisenhower Tower
7 Eisenhower St., Greenhills,
San Juan, Metro Manila
723-5380 / 219-0207 /
727-4936 to 39 / 721-0990

MAIN OFFICE-SAN MIGUEL
Unit A, G/F, San Miguel
Properties Center, No. 7
St. Francis St., Mandaluyong City
635-5517 / 219-0213 /
0917-8351876 / 738-1984 /
738-1985 (telefax)

MARCOS HI-WAY (CAINTA)
Unit 10, Thaddeus Arcade
Pitpitan cor. Gil Fernando Ave.
San Roque, Marikina City
641-7172 / 219-2723 /
647-7165 (fax)

MARIKINA
J.P. Rizal St., Sta. Elena
Marikina City
646-1808 / 219-3453 /
646-1802 (fax)

PASIG
Renaissance 2000 Tower
Meralco Ave., Pasig City
635-0392 / 219-0229
635-3661 / 631-3769 (telefax)

PASIG BOULEVARD
152 Pasig Blvd.
Brgy. Bagong Ilog, Pasig City
650- 6560 / 650-6561 (fax)

WACK-WACK PETRON
553 Shaw Blvd.
Brgy. Wack-Wack
Mandaluyong City
738-1984 / 219-0242 /
738-1984 / 738-1985 (telefax) /
633-2430 (telefax)

MANILA CENTRAL AREA

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

DASMARINAS-BINONDO
STP Bldg., Dasmariñas St.
cor. Marquina St.
Binondo, Manila
247-1472 / 247- 1473

GRACE PARK
G/F HGL Bldg., 554 Edsa cor.
Biglang-Awa St., Caloocan City
361-1832 / 219-0126 /
361-0931(fax)

JUAN LUNA
465 Juan Luna St.
Binondo, Manila
241-0234 / 241-0407 (fax)

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

SOLER
1004 Reina Regente St.
cor. Soler St. Binondo, Manila
244-7003 / 219-0120 /
244-7001 (tel/fax)

STO. CRISTO
Kim Siu Ching Foundation Bldg.,
471-483 Sto. Cristo St.
cor. Jaboneros St.,
Binondo, Manila
241-4151 / 242-0842 (telefax)

TUTUBAN
Units M2-60 21 and
22 Ground Center Mall
CM Recto Ave., Manila
353-0086/ 254-0586 (fax)
Quezon City Central Area

BROADCAST CITY
Broadcast City Compound
Capitol Hills Diliman
Quezon City
932-4628 / 219-0188 /
932- 4969 (Fax)

COMMONWEALTH
Upper G/F, DEMA Bldg.
Lot 1, Block 1, Capitol State-II
Commonwealth Ave.,
Quezon City
952-7990 / 216-7636 /
952-7989 (Fax)

CUBAO
Unit 1, G/F Harvester Corporate Ctr.,
P. Tuazon cor. 7th & 8th Aves.
Brgy. Socorro, Cubao
Quezon City
911-2486 / 219-0202 /
911-2485 (Fax)

DEL MONTE
Bank of Commerce Bldg.,
Del Monte Ave. cor.
D. Tuazon St., Quezon City
410-8025 / 219-3786 /
743-2541 (fax)

DILIMAN
Commonwealth Ave. cor.
Masaya St., Diliman,
Quezon City
927-6074 / 219-7093 /
920-2324 (Fax)

KATIPUNAN-PETRON
Petron Katipunan Complex
Katipunan Ave. Cor.
Mangyan Road, La Vista
Quezon City
921-4020 / 219-0174 /
921-4042 (Fax)

VISAYAS AVE.
43 Visayas Ave. Brgy., Vasra
Project 6, Quezon City
426-4854 / 219-0155 /
426-4732 (Fax)

WEST AVE (DELTA)
11 West Ave cor.
Zamboanga St., Quezon City
374-5544 / 219-0168 /
374-5548 (Fax)

WEST TRIANGLE
1451 Quezon Ave. Cor.
Examiner St., Quezon City
925-1209 / 219-0160 /
927-4063 (fax)

LUZON

NORTH LUZON AREA

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

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

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

CANDON
National Highway
Bgy. San Jose, Candon City
Ilocos Sur
(077) 674-0623 /
(077) 644-0288 (telefax)

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

DAGUPAN
Eastgate Plaza Bldg., A.B.
Fernandez East, Dagupan City,
Pangasinan
(075) 522-8691 /
(075) 522-8693 (telefax)

SAN FERNANDO-LA UNION
Northway Plaza
National Highway, Brgy. Sevilla
San Fernando City, La Union
(072) 700-1618 /
(072) 242-5683 (telefax)

TUGUEGARAO (ILAGAN)
27 Bonifacio Cor.
Washington St.
Tuguegarao City, Cagayan
(078) 844-8041 /
(078) 844-8044 (telefax)

URDANETA
The Pentagon Bldg.
McArthur Highway
Nancayasan, Urdaneta City
Pangasinan
(075) 656-1017 /
(075) 656-1018 (telefax)

VIGAN
Plaza Maestro Commercial
Complex, Jacinto Cor.
Florentino St.,
Vigan City, Ilocos Sur
(077) 722-2119
(077) 632-0802 (telefax)

CENTRAL LUZON AREA

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

BALANGA
Paterno St. Poblacion
Balanga City, Bataan
(047) 237-7622 /
(047) 252-1857 /
(047) 237-2366 (telefax)

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

BALIUAG
Victoria Bldg. Poblacion,
Baliuag, Bulacan
(044) 766-7701 /
(044) 766-2811 (telefax)

IBA, ZAMBALES
TRB Bldg.
Ramon Magsaysay Ave.
Iba, Zambales
(047) 602-1866 /
(047) 811-1025 (fax)

MALOLOS
Paseo del Congreso
Malolos, Bulacan
(044) 791-0342 /
(044) 791-2452 (telefax)

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

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

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

TARLAC
G/F, Rising Sun Bldg.
Mc. Arthur Highway
San Nicolas, Tarlac City
(045) 982-5401 /
(045) 982-5365 (telefax)

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) 723-0275 /
(043) 723-0279 /
(043) 723-0909 (telefax)

CALAMBA
Units 6&7, New Parian
Business Center, cor.
Lawa Road, National Highway
Parian, Calamba City
(049) 502-7922 /
(049) 502-8508 (fax)

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) 742-0691 /
(052) 480-6054

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

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

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

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

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

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

VISAYAS

EASTERN VISAYAS AREA

CEBU-AYALA
8990 Negros St.
Cebu Business Park, Cebu City
(032) 415-5164 / (032) 316-9913
(032) 239-0674 (telefax)

CEBU-BANILAD
G/F University of Cebu Bldg.
Gov. Cuenco Ave. (Banilad Rd.)
6000 Cebu City
(032)231-6704 /
(032) 316-9921 /
(032) 231-6706 (telefax)

CEBU-MAIN
B.Rodriguez St. cor.
Osmeña Blvd., Cebu City
(032) 253-1951 /
(032) 316-9912 /
(032) 255-4223 (fax)

CEBU-PASIL
Tupas St., Pasil, Cebu City
(032) 261-1597 /
(032) 316-9926 /
(032) 261-1599 (telefax)

CEBU STO. NIÑO MAGALLANES
G/F, Unit 2, Martina Sugbo Bldg.,
P. Burgos Cor. Magallanes St.,
Brgy. Sto. Niño, Cebu City
(032) 254-1825 /
(032) 316-9925 /
(032) 253-3999 /
(032) 253-7708 (fax)

LAPU LAPU
Units 3-5, AJS Bldg., Pusok
Lapu-Lapu City
(032) 341-3854 /
(032) 316-9927 /
(032) 341-3855 (fax)

MANDAUE
Entienza Bldg.
National Hi-way
Mandaue City, Cebu
(032) 346-6901 /
032 (316-9262) /
(032) 346-6902 (telefax)

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

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

WESTERN VISAYAS AREA

BACOLOD-ARANETA (LUZURRIAGA)
Yusay Arcade, Araneta St.
Bacolod City
(034) 433-4667 /
(034) 433-2267 (telefax)

BACOLOD-LACSON (BACOLOD)
12th St. Cor. Lacson St.
Bacolod City
(034) 433-4238 /
(034) 433-1139 (telefax)

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

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

ILOILO-IZNART
TCT Bldg., Iznart St., Iloilo City
(033) 335-0710 /
(033) 335-0712

ILOILO-J.M. BASA
G/F TTW Bldg., J.M. Basa
& Mapa Sts., Iloilo City
(033) 337-8721 /
(033) 335-1020 (telefax)

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

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

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

MINDANAO

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

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

CAGAYAN DE ORO-VELEZ
Don A. Velez-Akut Sts.
Cagayan de Oro City
(08822) 726-880 /
(088) 856-4371 (telefax)

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

DAVAO-LANANG
Consuelo Bldg., KM. 07
Brgy. San Antonio Agdao
District, Lanang, Davao City
(082) 234-1042 /
(082)234-1042 /
(082) 226-2859 (telefax)

DAVAO- RIZAL
CAP Dev't Center Bldg.
Rizal St., Davao City
(082) 226-2223 /
(082) 222-0904 (telefax)

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

MARAMAG
TRB Bldg., Sayre Highway, Poblacion
Maramag, Bukidnon
(088) 238-5253 /
(088) 238-5252 (telefax)

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

ZAMBOANGA-VETERANS
Veterans Ave. Cor. Camanchile St.
Zamboanga City
(062) 991-2381 /
(062) 991-2980 (telefax)


TRANSFAST

SENIOR OFFICERS

Jose T. Pardo
Chairman of the Board
Office of the Chairman

Roberto C. Benares
President & CEO
Office of the President/ CEO

EXECUTIVE VICE PRESIDENTS

Angelica H. Lavares
Group Head
Strategic Support Group

Carmelita R. Araneta
Group Head
Operations Group

Emmanuel G. Herbosa
Group Head
Branch Banking Group

Felipe Martin F. Timbol
Group Head
Treasury Management Group

SENIOR VICE PRESIDENTS

Alfonso T. Garcia, Jr.
Division Head
BBG-VisMin Division

Anna Marie A. Cruz
Division Head
Product Development, Marketing Services and Credit Cards Division

Edel Mary D. Vegamora
CFO and Controller
Finance & Controllership Group

Edward Dennis J. Zshornack
Chief Risk Officer
Risk Management Division

Joseph C. Justiniano
Group Head
Consumer Group

Ma. Elena S. Sarmiento
Chief Trust Officer
Trust Services Division

Mary Mildred A. Bernardo
Group Head
Credit Group

Maximo V. Estrada
Division Head
Asset Management & Recovery Division

Paul John T. Reyes
Division Head
TMG-Fixed Income Trading Division

Phebe F. Cabildo
Division Head
BBG-North Division

Reginald C. Nery
Chief Audit Executive
Internal Audit Division

Ricardo A. Coreces
Group Head
Corporate Banking Group

Teresita S. Galvadores
Division Head
OG-Centralized Operations Support Division

Victor C. Arboleda
Chief Compliance Officer
Compliance Division

Violeta M. Tirol
Division Head
BBG-South Division

FIRST VICE PRESIDENTS

Alfredo J. Bautista
Division Head
StSG-Business Systems Division

Alfredo L. Ayson
Division Head
OG-International Operations Division

Antonio Basilio C. De Guzman
Division Head
TMG-Product Engineering, Structures & Investments Division

Aristeo S. Maralit
Division Head
OG-Electronic Banking & Card Support Division

Aurora C. Manguerra
Division Head
Corporate Planning Division
Concurrent Head
TMG-Financial Institutions

Bernadette C. Basobas
Area Head
BBG-ND-Quezon City Central Area

Bernardo G. Talimban, Jr.
Chief Information Officer
OG-Information & Tech. Services Division

Celestino C. Mendiola
Division Head
BBG-Branch System and Process Division

Danielyn P. Casaul
Division Head
CBG-Commercial Banking I Division

Edwin T. Amahan
Division Head
BBG-Branch Operations Division

Jay S .Velasco
Division Head
OG-Loans Operations Division

Jovencio R. Navarro, Jr.
Area Head
BBG-SD-Metro Manila South Area

Louella P. Ira
Division Head
StSG-Legal Services Division

Ma. Eleanor Christina S. Castañeda
Division Head
CoG-Consumer Loans Division

Ma. Teresa L. Zamora
Division Head
TMG-Treasury Marketing & Sales Division

Marieta Bernadette A. Sevilla
Division Head
CBG-Commercial Banking II Division

Monette G. De Leon
Division Head
TMG-Liquidity & Asset Liability Management Division

Numeriano Manuel V. Amparo
Division Head
CBG-Cash Management Division

VICE PRESIDENTS

Alejandro Antonio B. Gaerlan
Division Head
TMG-Foreign Exchange Trading Division

Annalyn D. Delos Santos
Area Head
BBG-ND-Manila Central Area

Arturo Gerard T. Medrano III
Department Head
AMRD-Acquired Assets Management Department

Chona C. Lacson
Area Head
BBG-SD-Metro Manila East Area

Corazon T. Llagas
Department Head
StSG-LSD-Litigation Department

Georgina M. Borcelis
Area Head
BBG-ND-Metro Manila North Area

Girlie Isabel D. Umali
Department Head
AMRD-Remedial Management Department

Helen D. Paciencia
Project Manager
OG-ITSD-PDM-Project Management Office

Jeremy H. Reyes
Department Head
IAD-Quality Assurance Review Department

Jocelyn Isabel S. Legaspi
Department Head
StSG-LSD-Documentation Department

Jose Mari M. Zerna
Department Head
RMD-Credit Risk Management Department

Lucibar T. Perocho
Area Head
BBG-SD-Manila West Area

Maria Ana P. Dela Paz
Division Head
CG-Credit Evaluation and Review Division

Maria Carmen F. Aquino
Division Head
StSG-Human Resource Management & Development Division

Maria Leticia D.G. Madridejos
Officer-In-Charge
CBG-Corporate Division
Concurrent Special Assistant to the President
Office of the President/CEO

Marie Antoinette L. Dela Cruz
Division Head
OG-Treasury Operations Division

Morena V. Abadilla
Division Head
BBG-BOD-Branch Operations Quality Center

Noel R. Godoy
Division Head
CG-Consumer Credit Division

ASSISTANT VICE PRESIDENTS

Aiveth D. Yuseco
Department Head
CBG-CMD-Cash Management Products Department

Alfredo T. San Juan, Jr.
Department Head
CoG-CLD-Auto Loans Department

Alma A. Malabanan
Department Head
CBG-Commercial Banking II Division-Program Lending

Amalia Q. Belarmino
Head
Investment & Portfolio Management Department
Concurrent Officer-In-Charge Business Development & Account Management Department

Andrew D. Cajucom
Department Head
PDMSD-Credit Card Unit

Arlyn C. Valero
Division Head
StSG-General Services Division

Aurora R. Del Rosario
Branch Head
BBG-ND-QCCA-West Triangle Branch

Baldwin V. Villena
Department Head
StSG-HRMDD-Compensation & Benefits Administration Dept.

Belen T. Ramos
Branch Head
BBG-ND-MCA-Soler Branch

Camilla Genevieve A. Rimando
Department Head
PDMSD-Alternative Channels Department

Cecilia A. Rentoy
Quality Assurance Officer
BBG-BOD-Branch Operations Quality Center (VisMin Division)

Concesa N. Veneracion
Division Head
FCG-General Accounting and Systems Control Division

Cristina T. Ang Dy Pay
Branch Head
BBG-ND-QCCA-Del Monte Branch

Dino Joseph A. Ramirez
Department Head
TMG-FITD-Credit Trading / ROP Department

Don M. San Juan
Area Operations Officer
BBG-BOD-BOCC (Northern Luzon)

Emerline C. Cardenas
Area Head
BBG-ND-North Luzon Area

Ernest Exequiel P. Abanto
Department Head
CoG-CLD-Housing Loans Dept.

Ester S. Maraat
Area Operations Officer
BBG-BOD-BOCC (VisMin II)

Francisco Raymund P. Gonzales
Department Head
PDMSD-Product Development Department

George E. Consul
Area Head
BBG-SD-South Luzon Area

Jacqueline A. Domingo
Division Head
BBG-BOD-Branch Operations Control Center

Januario G. Caringal
Chief Security Officer
Security Department

Joanne A. Del Rosario
Department Head
StSG-BSD-Credit Policy Department

Joey R. Laqueo
Branch Head
BBG-ND-MMNA-Malabon II Branch

Kelwin S. Salvador
Branch Head
BBG-ND-MCA-Grace Park Branch

Leah Antoinette C. Cruz
Department Head
StSG-HRMDD-Learning & Development, Employee & Labor Relations

Leilani G. Bañes
Branch Head
BBG-SD-MA-Pasay Road Branch

Liberty A. Balgemino
Branch Head
BBG-SD-MMEA-Main Office (San Miguel) Branch

Lolita B. Carlos
Branch Head
BBG-SD-MA-Dela Costa Alfaro Branch

Lourdes V. Arriola
Branch Head
BBG-ND-MMNA-Malabon I Branch

Lucia I. Tolentino
Branch Head
BBG-SD-SLA-Calapan Branch

Ma. Clariza M. Ang
Branch Head
BBG-SD-MA-Ayala Branch

Ma. Consuelo M. Tan
Area Head
BBG-VMD-Mindanao Area

Ma. Isabel D. Lipana
Area Head
BBG-ND-Central Luzon Area

Ma. Theresa P. Ramilo
Department Head
OG-ITSD-PDM-Applications Management

Ma. Theresa G. Soriano
Area Head
BBG-SD-Makati Area

Manolo B. Kimpo, Jr.
Department Head
TMG-LALM-Domestic Fund Management Department

Marie Kristin G. Mayo
Department Head
StSG-HRMDD-Recruitment and Employee Information Department

Marilou T. Guevara
Branch Head
BBG-SD-MMEA-Main Office (San Miguel) Branch

Marion A. Pineda
Branch Head
BBG-ND-QCCA-Commonwealth Branch

Marlene P. Ignacio
Department Head
CBG-Commercial Banking II Division-Small Medium Enterprise

Marlo D. Montelibano
Area Head
BBG-VMD-Western Visayas Area

Medallon R. Abrena
Department Head
StSG-BSD-Methods & Standards Department

Orlando M. Bibares
Department Head
OG-LOD-Loans Operations Department

Patricia M. Onda
Account Officer
AMRD-AAMD-Sales & Marketing Section

Paulyn V. Bernabe
Department Head
TMG-TMSD-Retail-Branches Department

Peter M. Co
Branch Head
BBG-SD-MA-Pasong Tamo Ext. Branch

Rafael Lito D. Carbonell
Area Head
BBG-VMD-Eastern Visayas Area

Rizaldy D. Tolentino
Department Head
CBG-Commercial Banking I Division-Metro Manila/Luzon

Romil D. Langones
Department Head
CBG-Commercial Banking I Division-Visayas/Mindanao

Sheilah R. Apostol
AML Compliance Officer
CD-AML Management Department

Teodoro Q. Donato III
Branch Head
BBG-SD-MA-Zuellig Branch

Wilma L. Daliva
Division Head
CG-Credit Administration Division

Management Committees

ANTI-MONEY LAUNDERING COMMITTEE

Victor C. Arboleda, Chairman
Carmelita R. Araneta, Member
Phebe F. Cabildo, Member
Edwin T. Amahan, Member
Ma. Teresa L. Zamora, Member
Corazon T. Llagas, Member
Angelica H. Lavares, Member
Sheilah R. Apostol, Secretariat

ASSET LIABILITY MANAGEMENT COMMITTEE

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Felipe Martin F. Timbol, Vice Chairman
Ricardo A. Coreces, Member
Edel Mary D. Vegamora, Member
Aurora C. Manguerra, Member
Edward Dennis J. Zshornack, Adviser
Ma. Elena S. Sarmiento, Adviser
Monette G. De Leon, Secretariat

BIDS AND AWARDS COMMITTEE

Mary Mildred A. Bernardo, Chairman
Emmanuel G. Herbosa, Member
Angelica H. Lavares, Member
Carmelita R. Araneta, Member
Edel Mary D. Vegamora, Member
Ma. Ana P. dela Paz, Secretariat

BUSINESS CONTINUITY MANAGEMENT COMMITTEE (CRISIS MANAGEMENT TEAM)

Roberto C. Benares, Chairman
Carmelita R. Araneta, Vice Chairman
Emmanuel G. Herbosa, Member
Joseph C. Justiniano, Member
Ricardo A. Coreces, Member
Mary Mildred A. Bernardo, Member
Angelica H. Lavares, Member
Felipe Martin F. Timbol, Member
Edel Mary D. Vegamora, Member
Victor C. Arboleda, Member
Edward Dennis J. Zshornack, Member
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Bank of Commerce

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