SUCCESS TAKES SHAPE THROUGH ITS PEOPLE

GOLDEN ANNIVERSARY

BANK OF COMMERCE

2013 ANNUAL REPORT

CONTENTS

ABOUT THE COVER

The success of a company depends on the combined efforts of its people. Similar to digits forming a larger image, the people of Bank of Commerce constantly move towards forming a bigger and better company. This has been proven through hard work and commitment through the years.


Bank of Commerce

VISION

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

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.

CHAIRMAN'S REPORT

As we celebrate the 50th anniversary of Bank of Commerce, we look back at the past five decades and commemorate what has contributed to the Bank's success. We are thankful for the support our employees and clients have given us, for the relationships we have created and maintained through the years, and the opportunities we have harnessed which contributed to the growth of the Bank.

2013 was a difficult year for our country. The Visayas region is still scarred from the massive destruction brought about by Typhoon Yolanda in early November. Before that, an immense earthquake had already devastated the central provinces of Bohol and Cebu in October. Aside from these natural disasters, the Philippines also endured a political storm in the second half of the year, with the government shaken to the core over the pork barrel scandal.

Despite all the desolation and trials in the last quarter of 2013, the country's economy experienced a growth rate of 7.2%. Remarkably, this rate was higher than the previous year's GDP growth of 6.8%. The banking sector was able to capitalize and take advantage of this growth, which was widely driven by developments in the industry sector and the services sector.

As testament to the country's burgeoning economic strength, the big three credit rating agencies of the world, Fitch Ratings Inc., Standard & Poor's, and Moody's Investors Service have upgraded the credit rating of the Philippines, citing robust economic performance, ongoing fiscal and debt consolidation, political stability and improved governance as the factors for the improved rating.

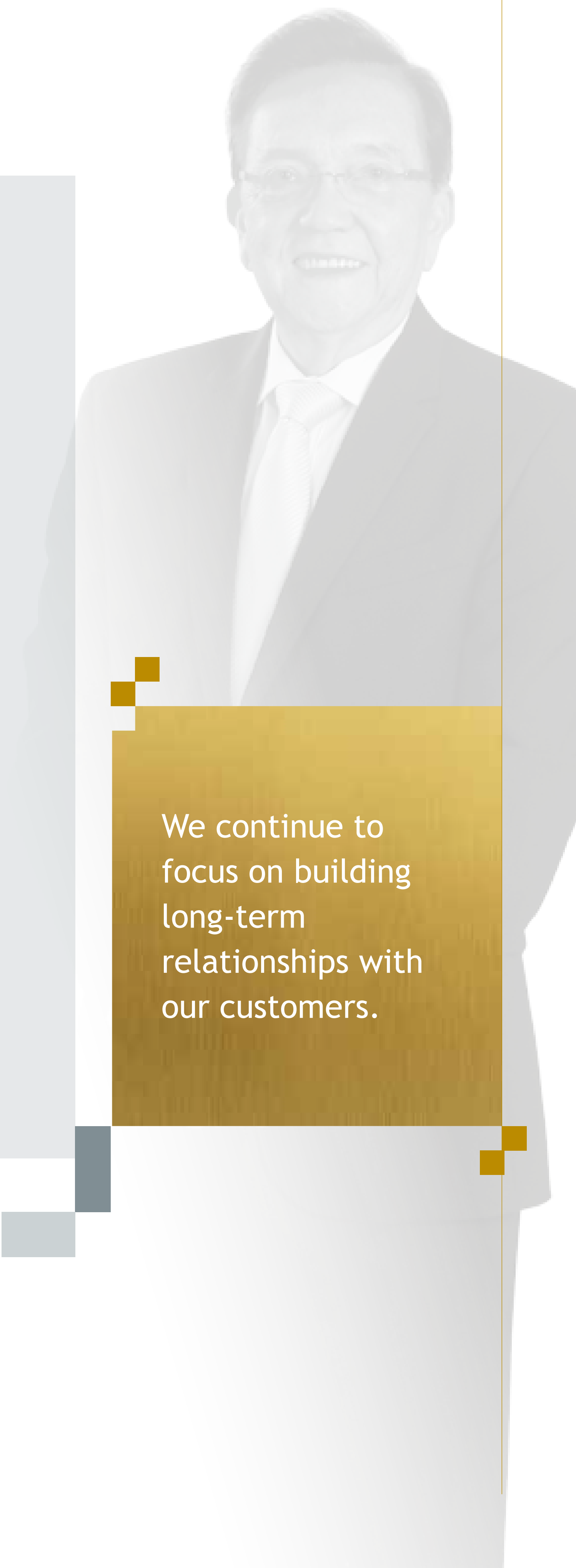
The banking industry has strengthened significantly in recent years and is now in excellent shape. The success of the banking sector can be attributed to the following supportive conditions: the economy has been growing, inflation has been in check, and the Bangko Sentral ng Pilipinas has adjusted policies to account for changes in economic conditions.

At Bank of Commerce, gains from trading and investment securities, corporate banking activities and consumer lending activities have contributed to the Bank's profitability.

As we start a new chapter in our history, we continue to focus on building long-term relationships with our customers. The management team will continue to develop products, prioritize systems enhancement, and people development in order to meet our customers' growing needs. Our strategy in 2014 is to launch an enhanced e-banking solution, increase foreign exchange activities, and expand the credit card business to better serve our customers.

To our shareholders and our customers, we would like to extend our heartfelt gratitude and praise for your unwavering support and trust for the last 50 years. We are also extremely grateful to the management team and the employees of our organization for their dedication and collective commitment to build a strong and profitable company. The Bank's success would not have been possible without you.

Jose T. Pardo



We continue to focus on building long-term relationships with our customers.

PRESIDENT & CEO'S REPORT

The year 2013 was a good year for Bank of Commerce. We marked the Bank's 50th anniversary with a net profit of PHP688 million, a significant increase versus the previous year. Total revenues reached PHP6.39 billion on the back of higher interest income, trading gains, service fees, and gains from asset sales. Total assets increased to PHP121 billion, with loans and reserve assets at PHP60.83 billion. Deposits grew 52% to reach PHP100 billion.

Looking at the Bank's financial results in detail, net interest income increased to PHP2.8 billion due to higher volumes in commercial loans and a steady increase in consumer loans. Non-interest income increased to PHP2.7 billion boosted by significant increases in income from securities trading, service charge and commissions, and sales of non-earning assets.

In 2013, the Bank opted to pre-pay the Financial Assistance Agreement (FAA) with the PDIC. USD34 million of structured notes and derivative instruments were sold. The balance of these notes was sold in early 2014, effectively eliminating volatility in reporting trading and securities income.

Notable in 2013 was the success of the Business Continuity Program, that was put to test during the seige in Zamboanga and the natural disaster that hit parts of the Eastern Visayas. The Bank was able to continue bank services even when power was out and telecommunication lines were down. It was a tribute to the disaster preparedness of the organization and the commitment of our branch officers and staff to provide our customers with continuous banking services.

This year, the Bank will strengthen and further improve its branch banking operations to address client requirements and deliver efficient banking services. The bank will increase its branch network and continue to relocate and renovate its branches to bring services closer to its customers.

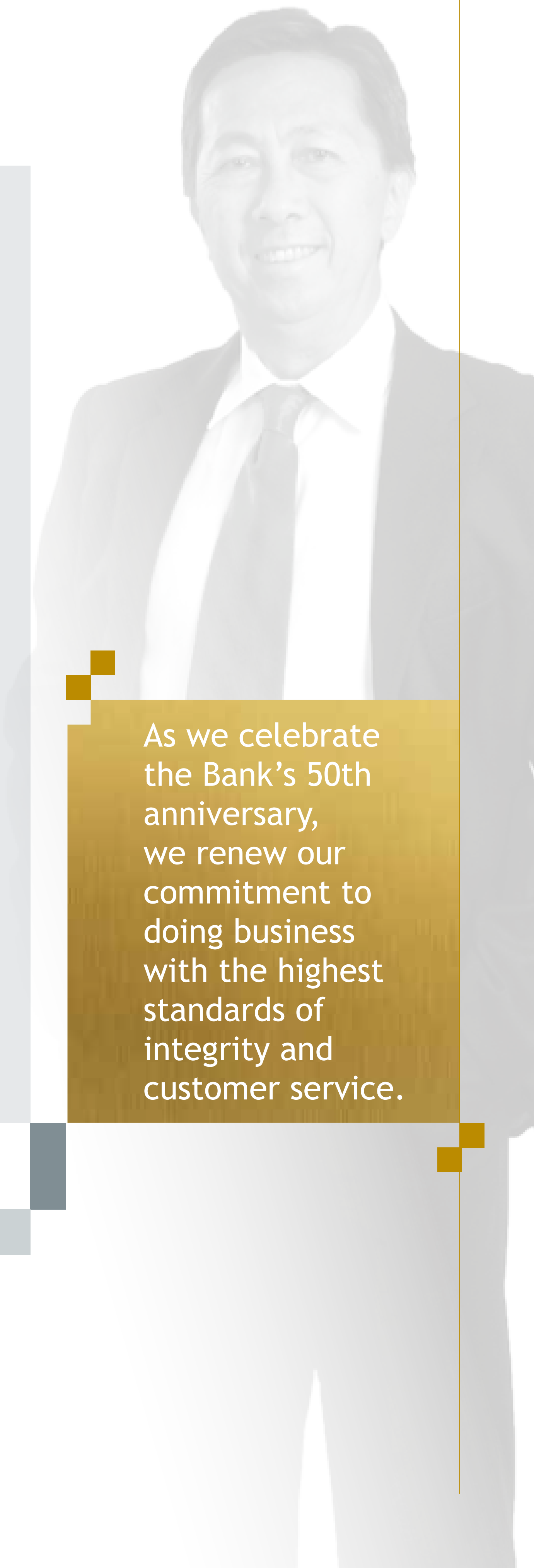
New and improved systems and e-banking solutions, diversified products and services relevant to the target segment, and key strategic programs will be launched to drive earnings in the years to come. The credit cards business will be expanded by the Consumer Group to solidify our market standing in this product segment.

Through the last five decades, we have invested in product development, branch expansion, and organizational improvements to serve our customers effectively. These would not have been possible without the commitment and talent of our people. In 2014, we shall continue to invest in training and people development to support the Bank's continuous growth. We believe in human capital and their contribution to growth.

As we celebrate the Bank's 50th anniversary, we renew our commitment to doing business with the highest standards of integrity and customer service. We are in the midst of a service culture improvement program designed to enhance the overall customer experience. These will serve as our guiding principle as we bring the Bank's full potential to the fore.

On behalf of the management team, I would like to thank our customers, our partners, our board members, and most especially our employees for the loyalty and support you have given us. I am confident that we are ready to face the challenges and uncertainties ahead of us, with you by our side.

Roberto C. Benares



As we celebrate the Bank's 50th anniversary, we renew our commitment to doing business with the highest standards of integrity and customer service.

CORPORATE GOVERNANCE

ADOPTION OF MANUAL ON CORPORATE GOVERNANCE

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

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

BOARD GOVERNANCE

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

BOARD OF DIRECTORS

Bank of Commerce has fourteen (14) Directors, five (5) 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, and Trust & Investment Committee. These committees regularly hold meetings as mandated in their respective Charters.

THE CORPORATE SECRETARY

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

THE COMPLIANCE OFFICER

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

A director is expected to act in the best interest of the Bank and in a manner characterized by transparency, accountability and fairness

BOARD PERFORMANCE AND EVALUATION

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

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

REMUNERATION FOR DIRECTORS AND OFFICERS

Directors are entitled to per diem allowance for their attendance at Board of Directors and Board Committe 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

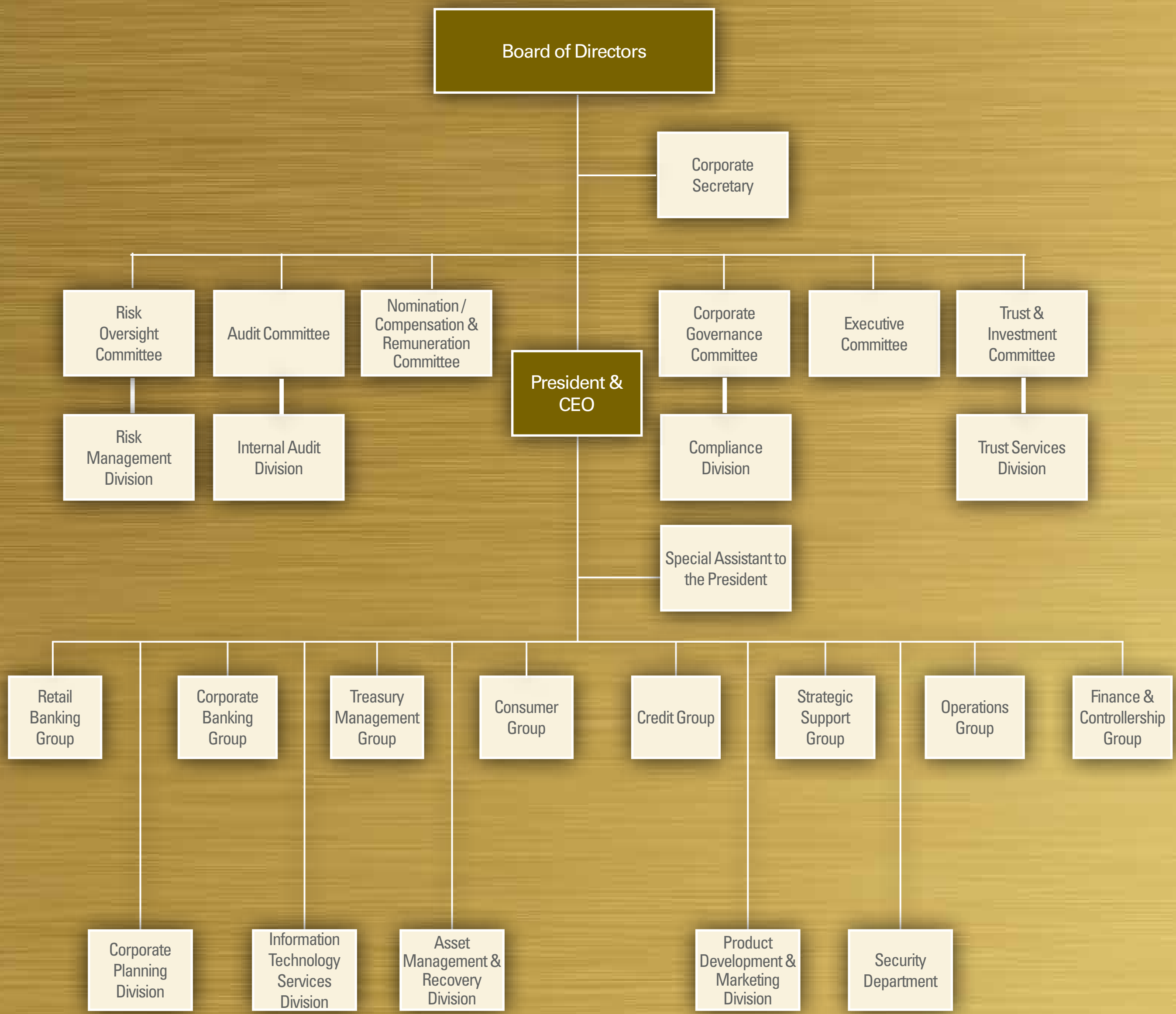
The Board respects the rights of the stockholders as provided for in the Corporation Code and ensures that they can freely vote on all matters that require their consent or approval, exercise their pre-emptive right to all stock issuances of the Bank, inspect the Bank's books and records, and access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


Board of Directors
Corporate Secretary
Risk Oversight Committee
Audit Committee
Nomination / Compensation & Remuneration Committee
Corporate Governance Committee
Executive Committee
Trust & Investment Committee
Risk Management Division
Internal Audit Division
President & CEO
Compliance Division
Trust Services Division
Special Assistant to the President
Retail Banking Group
Corporate Banking Group
Treasury Management Group
Consumer Group
Credit Group
Strategic Support Group
Operations Group
Finance & Controllership Group
Corporate Planning Division
Information Technology Services Division
Asset Management & Recovery Division
Product Development & Marketing Division
Security Department

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 activities 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 Board of Directors is the sole arbiter of the risks taken by the organization. It has the sole discretion to determine what manner (strategic direction) and magnitude (risk appetite) of risk 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 Board Risk Oversight Committee (BROC) to oversee the promotion of a risk management culture within the Bank. The BROC is responsible for establishing and maintaining a sound risk management system. It assists the Board in its risk oversight function by:

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

RISK MANAGEMENT DIVISION

Bank of Commerce considers the understanding and the management of risk as a key part of its business strategy. The Risk Management Division (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;
- Setting up the risk management framework approved by the Board of Directors;
- Actively promoting a culture of risk awareness and risk management and;
- Coordinating with capital management department on the adequacy of the Bank's capital in absorbing the risks present in the Bank's business.

RSK reports to the Board through the BROC, and is independent from the risk - taking business units of the bank. It is comprised of the following departments:

CREDIT RISK MANAGEMENT

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

MARKET AND ASSET LIABILITY RISK MANAGEMENT

The Market and Asset Liability Risk Management Department (MRM) of the Bank oversees the identification, assessment, monitoring and controlling of market and liquidity risks. It is responsible for recommending market risk and liquidity risk management policies, setting uniform standards of risk assessment and capital 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 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, Auditcom as well as the Senior Executive Team of the Bank.

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

In 2013, 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, i.e. Market, Asset and Liability, Credit, Corporate, Commercial, and Consumer Lending, Operations, Information Technology, and Trust.

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

Risk Weighted Assets
Bank of Commerce risk weighted assets at the end of 2013 totaled PHP 67.7 billion.

RISK WEIGHTED ASSETS	2013	2012
Credit Risk	**59,016**	**57,704**
On-Balance Sheet	58,536	57,106
Commitments	372	218
Contingencies	108	380
Market Risk	**1,839**	**5,203**
Interest Rate Risk	592	4,754
Foreign Exchange Risk	1,247	449
Operational Risk	**6,860**	**7,365**
TOTAL RISK WEIGHTED ASSETS	**67,715**	**70,272**

** Amounts in millions*

Credit Risk

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

Under this approach, the Bank multiplies its period-end credit risk exposures by a specified risk weight between zero and one hundred fifty percent. The applicable weight depends on the rating provided by an External Credit Assessment Institution recognized by the BSP.

Credit risk exposures at the end of 2013 include all items on the balance sheet totaling PHP118.8 billion in balance sheet exposure, Php 0.3 billion in commitments to lend, and PHP0.1 billion in contingencies arising from settlement receivables.

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

ON-BALANCE SHEET ITEMS ASSESSED WEIGHT FOR CREDIT RISK	2013	2012
Cash & Other Cash Items	**1,672**	**1,333**
Due From Banks	**36,461**	**20,130**
Securities	**28,257**	**18,575**
Sovereign	23,786	12,730
Bank	-	562
Corporate	4,471	5,283
Loan Portfolio	**42,289**	**36,960**
Loans to Corporates	38,175	33,411
Loans to Individuals - Qualified Residential REM	1,542	850
Loans to Individuals - Other Loans	1,841	1,477
Defaulted Exposures - Qualified Residential REM	148	167
Defaulted Exposures - Other Loans	583	1,055
Sales Contracts Receivable	**1,259**	**1,458**
Real & Other Properties Acquired	**1,975**	**2,270**
Other Assets	**6,852**	**8,588**
TOTAL ON-BALANCE SHEET ITEMS WEIGHTED FOR CREDIT RISK	**118,765**	**89,314**

** Amounts in millions*

Certain exposures totaling PHP0.7 billion treated as additions by the capital adequacy assessment exercise did not attract a risk weight.

ON-BALANCE SHEET ITEMS NOT ASSESSED FOR WEIGHT UNDER CREDIT RISK	2013	2012
General Loan Loss Provision	(318)	(359)
Financial Assets Held for Trading	440	1,137
Total Securitization Tranches Rated Below Investment Grade Deducted From Capital	391	470
Deferred Income Tax Assets	-	477
Investments in equity of unconsolidated subsidiary securities dealers/brokers, insurance companies, and non-financial allied undertakings, after deducting related goodwill	27	27
Significant minority investments (20%-50% of voting stock) in banks and quasi-banks, and other financial allied undertakings	51	-
Reciprocal investments in equity of other banks/enterprises	18	24
Accumulated market gains/(losses) on available for sale debt securities	(1,264)	1,613
TOTAL ON-BALANCE SHEET ITEMS NOT WEIGHTED FOR CREDIT RISK	**(655)**	**3,389**

** Amounts in millions*

The Bank considers credit risk mitigation as lowering its exposure to credit risk. At the end of 2013, PHP1.9 billion in credit risk exposures to corporate borrowers carried mitigation in the form of qualified guarantees from third parties.

ON-BALANCE SHEET ITEMS COVERED BY CREDIT RISK MITIGATION	2013	2012
Exposures covered by Credit Risk Mitigation	1,866	1,936
Items Covered by Guarantee (Before Risk Weighting)	1,866	1,936
Items Covered by Collateral (Before 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 2013 was PHP373.0 million.

COMMITMENTS TO LEND (LOAN EQUIVALENT EXPOSURE)	2013	2012
Direct credit substitutes	333	209
Transaction-related contingencies	1	3
Trade-related contingencies	39	6
Other commitments	-	-
TOTAL COMMITMENTS TO LEND (LOAN EQUIVALENT EXPOSURE)	**373**	**218**

** Amounts in millions*

The Bank acknowledges the potential credit exposure arising from unsettled contracts. It uses a credit conversion factor prescribed by banking regulations (between one and ten percent) to arrive at a loan equivalent exposure. The Bank adds the positive market-to-market amount to the potential future exposure to get the loan equivalent amount. Total loan equivalent exposure of the Bank to such commitments at the end of 2013 was PHP 108 million.

CONTINGENCIES (LOAN EQUIVALENT EXPOSURE)	2013	2012
Counterparty Risk on Freestanding Derivatives	-	-
Counterparty Risk on Derivatives Embedded into Structured Notes	108	420
TOTAL COMMITMENTS TO LEND (LOAN EQUIVALENT EXPOSURE)	**108**	**420**

** Amounts in millions*

Total credit risk weighted exposures at the end of 2013 was PHP59.0 billion. PHP58.5 billion emanated from on-balance sheet constituting 99.2%, while the remainder is in off-balance sheet risk weighted assets (PHP373.0 million) and counterparty risk weighted assets in the trading book (PHP108.0 million). Details are in tables below:

ON-BALANCE SHEET CREDIT RISK WEIGHTED ASSETS	2013	2012
Cash & Other Cash Items	**3**	**2**
Due From Banks	**3,079**	**1,296**
Securities	**3,770**	**9,805**
Sovereign	1,800	4,631
Bank	-	281
Corporate	1,970	4,893
Loan Portfolio	**40,419**	**35,127**
Loans to Corporates	36,676	31,476
Loans to Individuals - Qualified Residential REM	1,246	425
Loans to Individuals - Other Loans	1,474	1,477
Defaulted Exposures - Qualified Residential REM	148	167
Defaulted Exposures - Other Loans	875	1,583
Sales Contracts Receivable	**1,449**	**1,678**
Real & Other Properties Acquired	**2,963**	**3,405**
Other Assets	**6,852**	**5,792**
TOTAL CREDIT RISK WEIGHTED ASSETS	**58,535**	**57,105**

** Amounts in millions*

ON-BALANCE SHEET CREDIT RISK WEIGHTED ASSETS COVERED BY CREDIT RISK MITIGATION	2013	2012
Exposures covered by Credit Risk Mitigation	1,866	1,936
Items Covered by Guarantee (After Risk Weighting)	-	-
Items Covered by Collateral (After Risk Weighting)	-	-

** Amounts in millions*

Of the Bank's counterparty risk-weighted assets in the trading books, the resulting exposure emanated from its derivative transactions wherein the Bank acted as a guarantor or a seller of protection upon the occurrence of a credit event with respect to the reference entities or assets.

The Bank recorded exposure from derivative positions wherein the Bank acted as guarantor or seller of protection upon the occurence of a credit event with respect to the reference assets or entities. These were presented as counterparty risk-weighted assets in the trading books totaling PHP 107.5 million, with the reference assets primarily USD-denominated Philippine government securities. Using a credit conversion factor of 5%, the entire exposure was weighted at 100%

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 2013 was PHP1.8 billion.

MARKET RISK WEIGHTED ASSETS	2013	2012
Interest Rate Risk Specific to the Issuer of Debt Instruments	369	3,849
Interest Rate Risk Attributable to Market Conditions	223	904
Foreign Exchange Risk	1,247	449
TOTAL MARKET RISK WEIGHTED ASSETS	**1,839**	**5,202**

** 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 2013 was PHP 6.9 billion.

OPERATIONAL RISK WEIGHTED ASSETS	2013	2012
Average income of the Previous Three Years	3,659	3,928
Capital Charge (15 pct of Average Income)	549	589
Calibration (Capital Charge times 1.25)	686	736
TOTAL OPERATIONAL RISK WEIGHTED ASSETS (Calibrated Capital Charge times 10)	**6,860**	**7,365**

** Amounts in millions*

STRUCTURED PRODUCTS

The Bank at the end of 2013 carried investments in structured products totaling PHP2.6 billion. Of these, PHP2.3 billion were in the form of Republic of the Philippines reference credit-linked notes carried as available-for-sale investments. The Bank remained consistent with financial reporting standards by separating the credit default swap embedded into the notes from their host instruments and carried the derivatives at their fair values with any change to the carrying value reflected as profit or loss. The host instrument carried on the Bank's balance sheet at their fair values with any change to the carrying value was reflected in equity as other comprehensive income.

The Bank's investments in subordinate tranches of collateralized debt obligations with nil carrying value is carried as unquoted debt securities classified as loans. The Bank carried these investments at their amortized cost and provided for these investments to the extent assessment has proved the asset uncollectible.

INVESTMENT IN STRUCTURED PRODUCTS IN 2013	Carrying Value of Host Instrument	Carrying Value of Embedded Derivatives	Gross Exposure	Provisions for Loss	Total Carrying Value of Exposure
Credit-Linked Notes (ROP Reference)	2,296.70	(7.45)	2,289.25	-	2,289.25
Collateralized Debt Obligations	1,168.34	-	1,168.34	(874.87)	293.47
TOTAL	3,465.04	(7.45)	3,457.59	(874.87)	2,582.72

** Amounts in millions*

INVESTMENT IN STRUCTURED PRODUCTS IN 2012	Carrying Value of Host Instrument	Carrying Value of Embedded Derivatives	Gross Exposure	Provisions for Loss	Total Carrying Value of Exposure
Credit-Linked Notes (ROP Reference)	3,593.27	39.05	3,632.32	-	3,632.32
Collateralized Debt Obligations	1,072.44	-	1,072.44	(808.95)	263.49
TOTAL	4,665.71	39.05	4,704.76	(808.95)	3,895.80

** 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) should regularly disseminate any new issuances for the understanding of concerned units.

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

REPUTATIONAL RISK

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

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

LEGAL RISK

Legal risk arises from the risk of loss due to failure in the legal processes. This is normally a result of imperfect documentation or insufficient collateral agreements. The Bank's Legal Services Division (LSD) has the primary function of reviewing all documents for completeness and enforceability under their respective legal jurisdiction. LSD provides Senior Management and the BROC regular updates on any lawsuits involving the Bank.

PENSION RISK

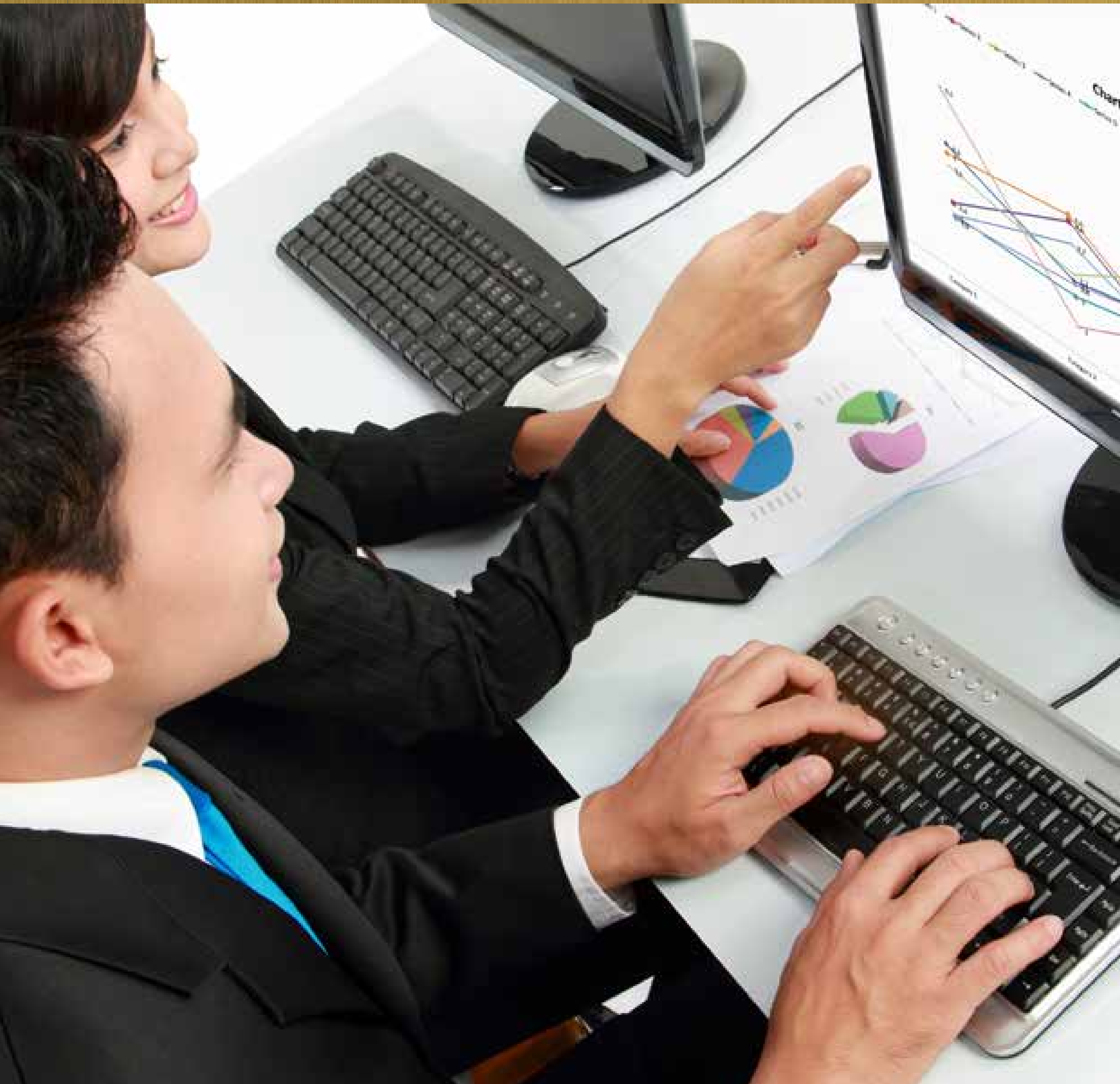
The Bank enlists the assistance of third party consultants to conduct actuarial evaluation on the condition of the retirement plan once a year in order to address any erosion in the explanatory power or significance of the actuarial models used to project benefit obligations.

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 2013.

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 the BROC and Audit Committee.



CAPITAL MANAGEMENT

The Board recognizes that capital adequacy is the foundation of institutional strength and therefore ensures that the Bank maintains adequate level of capital, through the Internal Capital Adequacy Assessment Process (ICAAP), to support business growth and, maintain depositor and creditor confidence, while ensuring minimum regulatory capital targets are maintained.

The Bank of Commerce (the Bank) capital management framework is designed to ensure that regulatory requirements are met at all times based on the Bank's risk profile and target ratios approved by the Board.

Regulatory capital adequacy is measured through three risk-based ratios namely:

Ratios (As reported to BSP)	December 31, 2013 (Basel 3 Simulation)	December 31, 2013 (Basel 2)	December 31, 2012 (Basel 2)
Common equity tier 1 – 6.0%	22.289%	n/a	n/a
Tier 1 Capital – 7.5%	22.289%	n/a	n/a
Minimum total capital adequacy ratio – 10%	22.835%	22.917%	22.321%

(Circular No. 781 became effective on January 1, 2014. Therefore CET1 of 6% and Tier 1 Capital of 7.5% is not applicable as of December 31, 2012.)

Common equity tier 1 represents ordinary share capital, share premium and retained earnings and cumulative translation adjustment The Bank does not have other capital component that will qualify for tier 1 capital.

The above ratios represent a measure of capital supply relative to the total risk-weighted assets and are measured against regulatory minimum requirements.

Risk weighted assets are determined based on standardized regulatory approach for credit, which considers both on-and-off balance sheet exposures, and market risk, while operational risks are based on basic indicators approach (BIA). As of December 31, 2013 and 2012, the Bank has complied with the minimum regulatory required capital.

Risk Weighted Assets and Capital Requirements (As reported to BSP	December 31, 2013 (in '000)		December 31, 2012 (in '000)	
	Risk Weighted Assets	Capital Requirements	Risk Weighted Assets	Capital Requirements
Credit Risk	P59,016,065	P5,901,607	P57,705,036	P5,770,504
Market Risk	1,838,657	183,866	5,202,477	520,248
Operational Risk	6,860,118	686,012	7,364,796	736,480

The following table exhibits the Bank's capital structure:

	DECEMBER 31,			
(amounts in million)	**2013**		**2012**	
CORE TIER 1 CAPTAL		**15,650.035**		**16,298.432**
Paid-up common stock	11,224.111		11,224.111	
Additional paid-in capital	8,748.530		8,748.530	
Retained Eranings	(4,298.718)		(3,661.869)	
Cumulative foreign currency translation	(23,888)		(12,340)	
DEDUCTION FROM CORE TIER 1 CAPITAL		-		477.378
Deferred income tax			477.378	
HYBRID TIER 1 CAPITAL		-		
TOTAL TIER 1 CAPITAL		**15,650.035**		**15,821.054**
UPPER TIER 2 CAPITAL		**356.709**		**386.016**
Appraisal Increment reserve - bank prem	38.709		27.016	
General loan loss provision	318.000		359.000	
LOWER TIER 2 CAPITAL		-		-
DEDUCTION FROM UPPER & LOWER				
TIER 2 CAPITAL		-		-
TOTAL TIER 2 CAPITAL		**356.709**		**386.016**

	2013		2012	
DEDUCTION FROM TIER 1 AND TIER 2 CAPITAL		**488.274**		**521.375**
Investment in equity of unconsolidated subsidiary securites dealers/brokers insurance cos, and non-financial allied undertaking after deducting related goodwill	27.372		27.372	
Significant minority investment (20-50% of voting stock) in banks and quasi-banks & other financial allied undertaking	51.308		-	
Reciprocal investment in equity of other banks/enterprises	18.175		23.595	
Securitization tranches in the banking book which are rated below investment grade/ unrated	391.419		470.408	
DEDUCTIONS FROM TIER 1 (50% OF 488.274/521.375)		**244.137**		**260.688**
DEDUCTIONS FROM TIER 2 (50% OF 488.274/521.375)		**244.137**		**260.688**
NET TIER 1 CAPITAL (A)	**15,405.898**		**15,560.366**	
NET TIER 1 CAPITAL (B)	**112.572**		**125.328**	
TOTAL QUALIFYING CAPITAL (A+B)		**15,518.470**		**15,685.694**

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 Board also recognizes the applicability of the changes under Basel III and has included such assessment in its ICAAP processes.

The Bank's management constantly monitors both compliance with the minimum requirement and the coverage of the requirements determined by its internal capital adequacy assessment. 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 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 Internal Capital Adequacy Assessment Process. The Committee:

1. Monitors the Bank's compliance with mandated minimum capital requirements;
2. Reviews the Internal Capital Adequacy Assessment Process (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.

CORPORATE PLANNING DIVISION

The Corporate Planning Division is a unit within the Bank that oversees the functions of planning and budget setting. The Bank transferred the ICAAP function to Corporate Planning in August 2011. Going forward, the Finance and Controllership Group and Corporate Planning shall embark on a bankwide ICAAP embedding process that will align all units to the Board's objectives on proper management of its capital, related to the risks it has established as acceptable in its risk appetite statements.
Finance shall continue to perform functions in support of the ICAAP that include:

1. Overseeing the process of capital adequacy assessment to determine whether or not the Bank's capital base covers the identified material risks;
2. Coordinating with other units to develop, refine, and maintain the ICAAP;
3. Coordinating with Corporate Planning, acting as a clearing house for all matters relating to the ICAAP and;
4. Communicating results of analyses to management and the Board of Directors.

CORPORATE SOCIAL RESPONSIBILITY

Bank of Commerce is not just in the business of helping the Filipino community achieve their financial goals, but we have also been actively extending our support to communities we serve, helping them realize their dreams. The Bank believes in nation building and remains committed to Corporate Social Responsibility. Our passion to give back to the community, in any way that we can, is reflective of our Bank's commitment to service. This year, we will continue to make a difference in society and create a positive impact in the lives of others by sharing our employees' time, talents and treasures with underserved rural and urban communities.

AMBAG ZAMBOANGA

Bank of Commerce joined several other organizations in the rehabilitation of Zamboanga City, which was the setting of the conflict between the AFP and the MNLF in September 2013. Structures were razed during the Zamboanga crisis and many families were displaced due to the gunshots and bombs fired near their homes. Ateneo de Zamboanga University launched a post-rehabilitation project called amBAG. amBAG is a back-to-school initiative that helped address the basic needs of students who were affected by the crisis. Funds were raised for back-to-school learning kits that were distributed to six hundred children from Santa Barbara and East Central Schools, both of which were affected by the Zamboanga Siege.

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 2013, the organization led a private event in Megamall Cinema, the proceeds of which were utilized for the supplemental feeding of indigent PWDs' families, particularly their children.

PASKO SA CALAUAN

We remained committed to strengthening our ties with the San Miguel Foundation, Inc. (SMFI), whose core values are aligned with Bank of Commerce. In 2013, the Bank once again supported SMFI's Happy Tummies Year Three, by sponsoring the Children's Christmas Festivities and Medical Mission for the community of Brgy. Dayap, Calauan, Laguna. This year, the program was organized by Yuppeace volunteers who have been supporting the 3rd Saturday catechism with Calauan kids for the past four years. The consistency of volunteers led to an increase in participation of kids, which started with 100 young boys and girls and has now grown to more than 300 children.

FINANCIAL HIGHLIGHTS

FINANCIAL POSITION

ASSETS	2013 (in billions)	2012 (in billions)
Cash and Cash Equivalents	P 22.7	P 12.2
Reserves	15.5	9.2
Securities (Net)	27.1	21.3
Loans and Receivables (Net)	46.0	40.3
Other Assets	9.8	10.1
TOTAL	P 121.1	93.1

LIABILITIES AND EQUITY		
Deposits	P 100.3	P 65.9
Other Liabilities	4.1	9.3
Equity	16.7	17.9
TOTAL	P 121.1	P 93.1

	2013	2012
Return of Average Equity	4.0%	1.5%

STATEMENT OF INCOME	2013 (in billions)	2012 (in billions)
Net Interest Margins	P 2.8	P 2.6
Non-Financing Revenues	2.7	1.9
OPEX	3.8	3.7
Provisions for Loss	0.7	0.7
Expense (Benefit) from Income Tax	0.3	(0.2)
NET INCOME	P 0.7	P 0.3

CAPITAL ADEQUACY	2013 (in billions)	2012 (in billions)
Total Qualifying Capital	P 15.5	P 15.7
Risk Weighted Assets	P 67.7	P 70.3
CAR	22.9%	22.3%

OPERATIONAL HIGHLIGHTS

From our humble beginnings five decades ago, we have always been committed to providing our customers with quality service and the best products and services. We have successfully hurdled the challenges of the past, achieved our goals and helped our customers and partners grow alongside us. In the year 2013, significant investments were made on improving our branch network and customer relationships.

RETAIL BANKING GROUP

Retail Banking Group continued its strategy of realigning its efforts towards customer acquisition and retention in 2013. Riding on the momentum from the gains realized through new product offerings and branch expansion and rationalization, the Bank followed through on this strategy by repositioning additional branches from their current locations to more strategic and visible markets while expanding its distribution channels for consumer loan offerings through third party alliances.

BRANCH BANKING

Last year saw the Bank open its doors at the iconic Zuellig Building in Makati as it transferred one of its branches into this very strategic landmark in the Makati CBD. Another fourteen branches were also relocated to bring the Bank closer to its growing markets. These movements saw branches open in Resorts World complex in Pasay City, Jupiter St., in Bel-Air, Makati City; Pamplona area in Las Piñas City, Calamba, Laguna; Sto. Cristo in Binondo, Manila; Commonwealth and E.Rodriguez areas in Quezon City; Gen. Luna St. in Malabon; Candon City in Ilocos Sur; Magallanes in downtown Cebu City; Dagupan and Urdaneta in Pangasinan and the Lanang district in Davao City.

Simultaneously, several branches continued to undergo major facelifts to heighten customer experience when transacting at our branches.

These branch facility upgrades, coupled with the heightened push for customer acquisition and drive for expanded product availments from customers, resulted in an increase in the bank's customer base by 23% from 2012 while ending the year with total deposits of PHP100 billion.

Our ATM network enhancement also followed the lead of our branch relocations as more ATMs were repositioned in higher traffic areas resulting in the Bank's total ATM acquiring transactions increasing by 13% over the previous year and propelling it among BancNet's upper tier banks in terms of total number of transactions.

CONSUMER GROUP

The year 2013 for the Consumer Lending Division was a banner year. Interest revenue for the group jumped from only PHP4 million the previous year to PHP103 million resulting from the increased bookings generated in the second half of 2012 and in 2013. The stellar performer among consumer loan products continued to be home mortgage loans, which breached the PHP1 billion mark in terms of new business, representing an increase of 207% versus 2012 bookings of PHP488 million. Strong partnerships with real estate developers enabled the team to build up its portfolio. In addition, the team also launched the agency sales channel which further boosted new bookings.

In 2014, the Housing Loans Department aims to develop the branch sales channel through aggressive promotional campaigns and incentive programs to engage our branch sales teams to ramp up loan bookings.

The Auto Loans Department also witnessed double-digit growth from 2012 by financing a total of PHP551 million in new loans. External distribution channels such as the auto dealerships and sales agents continued to pave the way for this increase. The Bank capitalized on this support by setting up a team of dealer coordinators (the Mobile Sales Force) which focused on areas where three or four dealerships are located. This meant higher levels of service and attention given to the dealers. In 2014, the same strategy will be employed for the branch network. This will allow the Auto Loans Department to tap this inherent strength of the Bank and allow the Department to expand its reach outside Metro Manila.

The Salary Loan product of the Bank continued to grow in terms of bookings as the team continued to capture new companies to sign up. This should translate to even more loans because of a wider and more diverse market of salary loan borrowers. Rounding out the performance of the consumer loans business was the growth registered in Personal Loans which grew 33% to PHP180 million in 2013.

With the surge in the consumer loan volumes, the Loan Servicing Department was created in 2013 to handle all administrative functions for loan accounts already booked. This ensures better service quality for clients.

TRUST SERVICES DIVISION

2013 proved to be a challenging year for the trust industry with the implementation of new BIR and BSP regulations. A major development was the BSP mandate to phase out the access by the Investment Management Accounts (IMA) to the BSP Special Deposit Account (SDA), one of the primary investment outlets of trust clients. Notwithstanding, the year ended with a Total Assets Held in Trust (AHIT) of PHP8.07 billion.

In order to expand the available investment outlets of our clients, Trust Services Division launched the Diversity Money Market Fund. Moreover, we actively sourced prime debt and equity instruments from both the primary and secondary markets through our accredited brokers and underwriters. As a result, our long-term and highly rated investment portfolio significantly increased from PHP196 million to PHP1.98 billion, a growth of almost 900%.

Likewise, Trust Services Division continued to adhere to global best practices by further strengthening its investment and credit evaluation processes, and enhancing its credit and risk review framework.

In 2014, operational efficiency is expected to significantly increase with the full automation of the trust operating system, enabling us to meet the growing demands of our client base.

TREASURY MANAGEMENT GROUP

The year 2013 turned out to be the most challenging year for the bond market. The improving US economic data heralded the tapering of the Fed's stimulus package, signaling the end of the bond party. Yields of US Treasuries, the benchmark of dollar-denominated global bonds, went up, consequently pushing ROP yields and other global bonds higher in the third quarter. This paved the way for the biggest bond rout in years.

The local front was likewise not spared. Yields of peso-denominated government securities rose due to exit of hot money from the country. Moreover, natural and man-made calamities in the last quarter of the year further buoyed yields of government securities as threats of inflation spooked the market.

The USD currency slowly gained strength as news of US economic recovery was supported by occasional positive data releases.

Given this backdrop, Treasury relied heavily on its gains derived in the first quarter of the year to sustain its profitable streak in 2013.

CORPORATE BANKING GROUP

As a result of the Corporate Banking Group's reorganization and refocusing of efforts in 2013, the group was able to grow loans by PHP5.0 billion in spite of unexpected early paydowns from large corporations. The group decided to manage its income streams - forgoing loan volumes for acceptable spreads. The growth can be attributed to contributions from the group's three divisions – the large corporate segment, the middle market segment and the small and medium enterprise segment.

Riding on last year's momentum, in 2014, the group intends to grow the loan base by providing tailor fit products, such as the Business Credit Line, to address the specific needs of small and medium enterprise clients. The group is keen to participate in various loan syndications to help support deserving project proponents that intend to construct and develop PPP projects. The group is likewise gearing up for additional business brought about by the expected resurgence of international investor interest, either to increase existing manufacturing capacities or to erect new production plants, in the country.

Our success to date shows that we are on the right path. The Bank will continue to strengthen its infrastructure, introduce diversified products and services, and establish new branches. We are confident that in 2014, with the dedication of our employees and most especially the unwavering support of our clients, we will continue to grow and bring Bank of Commerce to new heights.

we will continue
to grow and bring
Bank of Commerce
to new heights

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*

ROBERTO C. BENARES
- *President & CEO*
- *Member, Board of Directors*
- *Vice Chairman, Executive 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*

RAMON A. DE LA LLANA
- *Member, Board of Directors*
- *Member, Audit Committee*

ANIANO A. DESIERTO
- *Independent Director as Member, Board of Directors*
- *Member, Corporate Governance Committee*

CAROLINA G. DIANGCO
- *Member, Board of Directors*
- *Member, Executive Committee*
- *Member, Nomination, Compensation & Remuneration Committee*

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

NOT IN PHOTO:

MARIA FARAH Z.G. NICOLAS-SUCHIANCO
- *Member, Board of Directors*
- *Member, Audit Committee*
- *Member, Corporate Governance Committee*

RAUL C. GERODIAS
- *Member, Board of Directors*
- *Member, Audit Committee*

BOARD OF DIRECTORS

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

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*
- *Member, Audit Committee*
- *Member, Board Risk Oversight Committee*

VICENTE L. PANLILIO
- *Member, Board of Directors*
- *Member, Trust & Investment Committee*
- *Member, Board Risk Oversight Committee*

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, Board Risk Oversight Committee
- Adviser, Nomination, Compensation & Remuneration Committee

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

EVITA C. CABALLA
- Corporate Secretary

SENIOR EXECUTIVE TEAM

ROBERTO C. BENARES
President / Chief Executive Officer

CARMELITA R. ARANETA
EVP / Operations Group Head

ANGELICA H. LAVARES
EVP / Strategic Support Group Head

ARTURO E. MANUEL, JR.
EVP / Retail Banking Group Head

MAXIMO V. ESTRADA
SVP / Consumer Group Head

FELIPE MARTIN F. TIMBOL
EVP / Treasury Management Group Head

MARK S. PANTALLON
AVP/Finance & Controllership Group (OIC)

MARY MILDRED A. BERNARDO
FVP/Credit Group Head

HOMER S. FIGUEROA
SVP / Chief Audit Executive
Adviser

EDWARD DENNIS J. ZSHORNACK
SVP / Chief Risk Officer
Adviser

AURORA C. MANGUERRA
FVP / Corporate Planning Division Head
Secretariat

VICTOR C. ARBOLEDA
SVP / Chief Compliance Officer
Adviser

trade financing
working capital loan
invest
consumer loans
domestic bill purchase
corporate internet banking
auto loan
consumer loans
alternative channels
euro time deposit
salary loan
escrow
save
treasury
loan
pre-need accounts
retail
dollar time deposit
deposit pick-up
loans payment
current account
home loan
sikap pinoy
cash delivery
export packing credit
retail internet bank
payroll plus
savings account
export bills purchase
foreign exchange
remittance
corporate banking
time deposit
trust
bancnet online shopping
atm
trade finance
foreign currency denominated loan
credit cards

PRODUCTS & SERVICES

RETAIL PRODUCTS

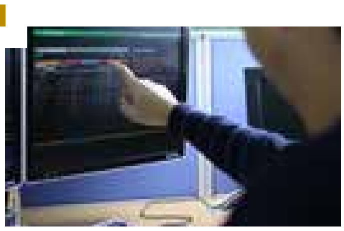
- Savings Account ATM
- Savings Account Passbook
- Savings Account Plus
- Checking Account
- Complete Checking Account
- Dollar Savings Account
- Euro Savings Account
- Premium Savings Account
- Premium Savings Account Money Market
- Time Deposit
- One-Year Time Deposit
- Dollar Time Deposit
- Euro Time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

ALTERNATIVE CHANNELS

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

CONSUMER LOANS

- Home Loan
- Auto Loan
- Salary Loan
- Credit Cards



TRUST PRODUCTS

- Employee Benefit Trust
- Pre-Needs Accounts
- Living Trust Accounts
- Trust under Indenture
- Escrow
- Unit Investment Trust Funds
- Provident Fund
- Other Institutional Agency Accounts

TREASURY PRODUCTS

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

CORPORATE BANKING

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

CASH MANAGEMENT AND PAYMENT SERVICES

- 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 Savings Account

AUDITED FINANCIAL STATEMENTS

December 31, 2013

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Bank of Commerce (the "Bank") is responsible for the preparation and fair presentation of the financial statements as at and for the years ended December 31, 2013 and 2012, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

JOSE T. PARDO
Chairman of the Board

ROBERTO C. BENARES
President and Chief Executive Officer

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

February 28, 2014
Mandaluyong City, Metro Manila

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 of December 31, 2013 and 2012, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide bases for our qualified audit opinion.

PRC-BOA Registration No. 0003, valid until December 31, 2016
SEC Accreditation No. 0004-FR-3, Group A, valid until November 22, 2014
IC Accreditation No. F-0040-R, Group A, valid until September 11, 2014
BSP Accredited, Category A, valid until December 17, 2014

Bases for Qualified Opinion

As discussed in Note 15 to the financial statements, pursuant to Republic Act (RA) No. 9182, *The Special Purpose Vehicle Act of 2002*, the Bank sold certain nonperforming assets (NPAs) to a special purpose vehicle (SPV) in 2007 and 2005. As allowed under the provisions of RA No. 9182, the losses arising from the sale of the NPAs amounting to P432.1 million and P1.5 billion in 2007 and 2005, respectively, were deferred and amortized over a ten-year period. PFRS, however, requires that the foregoing losses be recognized in full in the period such losses were incurred. Had the Bank fully recognized the losses arising from the foregoing sale of NPAs in the years when these were incurred, as required under PFRS, total assets and equity would have decreased by P0.6 billion and P0.9 billion as of December 31, 2013 and 2012, respectively, and net income of the Bank would have increased by P267.1 million and P224.1 million in 2013 and 2012, respectively.

As discussed in Notes 15 and 34 to the financial statements, the Bank acquired certain assets of Traders Royal Bank (TRB) totaling P4.5 billion under a purchase and sale agreement in 2002. The assets acquired were classified as part of miscellaneous assets and were determined to be impaired to the extent of P3.1 billion at acquisition date. The Bank deferred the full recognition of the impairment losses and instead recognized the required provisioning in its financial statements on a staggered basis. The Bangko Sentral ng Pilipinas (BSP) allowed and approved the staggered recognition of the foregoing required provisioning pursuant to the Financial Assistance Agreement between the Bank and the Philippine Deposit Insurance Corporation as discussed in Note 34, and pursuant to Monetary Board Resolution No. 1950 as discussed in Note 18, to the financial statements. PFRS, however, requires the outright recognition of impairment losses in the period incurred. Had the Bank fully recognized the impairment losses on the miscellaneous assets acquired from TRB in the period when these were incurred as required under PFRS, total assets and equity would have decreased by P2.6 billion and P1.7 billion as of December 31, 2013 and 2012, respectively, and net income would have increased by P159.3 million and P91.5 million in 2013 and 2012, respectively.

Had the matters discussed in the preceding paragraphs been accounted for by the Bank in accordance with PFRS, total assets and equity would have decreased by P3.2 billion and P2.6 billion as of December 31, 2013 and 2012, respectively, and net income would have increased by P426.4 million and P315.6 million in 2013 and 2012, respectively.

Qualified Opinion

In our opinion, except for the effects on the financial statements of the matters discussed under *Bases for Qualified Opinion*, the financial statements referred to above present fairly, in all material respects, the financial position of Bank of Commerce as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with PFRS.

Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 19-2011 and RR 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 39 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 28, 2014
Makati City, Metro Manila

Statements of Financial Position

	Note	December 31 2013	December 31 2012 (As restated - see Note 3)	January 1 2012 (As restated - see Note 3)
ASSETS				
Cash and Other Cash Items		**P1,671,990,481**	P1,332,509,976	P1,074,427,671
Due from Bangko Sentral ng Pilipinas	*17*	**30,317,427,176**	16,601,523,891	9,423,916,405
Due from Other Banks		**3,873,689,285**	2,788,805,569	3,208,540,979
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	*7*	**2,362,692,236**	737,114,265	14,032,443,705
Financial Assets at Fair Value through Profit or Loss	*8, 36*	**439,887,130**	1,103,767,403	571,838,844
Available-for-Sale Securities - net	*9, 16, 31, 36*	**26,675,350,479**	20,168,689,979	22,822,853,731
Loans and Receivables - net	*10, 16, 33, 36*	**46,003,155,379**	40,318,978,872	32,920,193,252
Non-current Assets Held for Sale	*14*	**241,742,387**	325,830,137	468,762,195
Investment in Associate - net	*11, 16*	**51,682,341**	57,299,913	50,067,058
Property and Equipment - net	*12, 16*			
At cost		**677,775,893**	727,919,804	712,347,376
At appraised values		**1,009,656,688**	1,107,274,549	1,161,707,464
Investment Properties - net	*13, 16*	**2,576,945,375**	2,677,905,303	3,301,448,151
Deferred Tax Assets - net	*30*	**526,925,524**	-	-
Other Assets - net	*15, 16*	**4,708,366,529**	5,193,669,459	5,554,933,064
		P121,137,286,903	P93,141,289,120	P95,303,479,895
LIABILITIES AND EQUITY				
Deposit Liabilities	*17, 33*			
Demand		**P20,376,582,547**	P15,390,172,573	P15,270,465,185
Savings		**60,997,383,400**	31,232,894,601	33,035,654,060
Time		**18,916,581,378**	19,269,617,763	23,501,915,893
		100,290,547,325	65,892,684,937	71,808,035,138
Financial Liabilities at Fair Value through Profit or Loss	*8, 36*	**10,880,345**	47,534,504	224,351,551
Bills Payable	*18*	**271,287,876**	1,433,558,217	2,312,082,307
Manager's Checks and Acceptances Payable		**305,412,287**	371,965,948	353,906,067
Accrued Interest, Taxes and Other Expenses	*19*	**820,291,170**	758,665,728	471,015,775
Deferred Tax Liabilities - net	*30*	**-**	-	393,954,852
Other Liabilities	*20*	**2,741,720,494**	6,694,714,644	2,329,345,737
Total Liabilities		**104,440,139,497**	75,199,123,978	77,892,691,427

Forward

	Note	December 31 2013	December 31 2012 (As restated - see Note 3)	January 1 2012 (As restated - see Note 3)
Equity				
Capital stock	*22*	**P11,224,111,200**	P11,224,111,200	P11,224,097,475
Paid-in surplus	*22*	**8,748,529,687**	8,748,529,687	8,748,519,520
Surplus reserves	*23*	**137,798,908**	131,741,182	128,310,356
Deficit	*22*	**(2,674,765,582)**	(3,365,227,271)	(3,696,864,778)
Net unrealized (losses) gains on available-for-sale securities	*9, 36*	**(576,891,214)**	1,363,484,048	1,016,934,240
Remeasurement losses on retirement plan	*27*	**(181,976,206)**	(212,812,973)	(125,352,323)
Revaluation increment on property	*12*	**32,646,039**	38,709,472	104,059,953
Share in other comprehensive (loss) income of associate	*11*	**(220,761)**	633,174	-
Cumulative translation adjustment		**(12,084,665)**	12,996,623	11,084,025
Total Equity		**16,697,147,406**	17,942,165,142	17,410,788,468
		P121,137,286,903	P93,141,289,120	P95,303,479,895

See Notes to the Financial Statements.

Statements of Income

		Years Ended December 31	
	Note	**2013**	2012 (As restated - see Note 3)
INTEREST INCOME			
Loans and receivables	*10, 33, 36*	**P2,211,566,601**	P2,249,509,734
Trading and investment securities	*24, 36*	**1,317,360,277**	1,158,703,907
Due from Bangko Sentral ng Pilipinas and other banks	*17*	**160,040,247**	115,058,794
Interbank loans receivable and securities purchased under resale agreements	*7*	**19,834,012**	188,387,905
		3,708,801,137	3,711,660,340
INTEREST EXPENSE			
Deposit liabilities	*17, 33*	**882,452,445**	1,025,916,584
Bills payable and other borrowings	*18, 19*	**52,284,466**	99,117,762
		934,736,911	1,125,034,346
NET INTEREST INCOME		**2,774,064,226**	2,586,625,994
OTHER INCOME			
Trading and investment securities gains - net	*26*	**1,857,982,513**	1,245,706,499
Service charges, fees and commissions	*25*	**402,749,888**	311,782,729
Gains on foreclosure, and sale of property and equipment and foreclosed assets - net	*12, 13, 14*	**245,839,794**	126,868,424
Foreign exchange gains - net		**7,138,964**	62,062,765
Miscellaneous	*13, 28, 33*	**170,174,451**	194,015,194
		2,683,885,610	1,940,435,611
OTHER EXPENSES			
Compensation and fringe benefits	*27, 33*	**1,392,055,412**	1,205,186,797
Impairment losses	*9, 10, 11, 12, 13, 15, 16, 34*	**700,141,658**	736,481,262
Rent and utilities	*28*	**618,114,184**	627,324,940
Taxes and licenses	*30*	**471,726,857**	337,930,500
Depreciation and amortization	*12, 13*	**303,582,305**	329,348,932
Insurance		**168,500,000**	147,968,467
Amortization of software costs	*15*	**71,627,308**	43,351,706
Management and professional fees		**59,412,876**	70,052,341
Miscellaneous	*29*	**727,962,750**	942,545,867
		4,513,123,350	4,440,190,812
INCOME BEFORE SHARE IN NET (LOSS) INCOME OF ASSOCIATE AND INCOME TAX		**944,826,486**	86,870,793
SHARE IN NET (LOSS) INCOME OF ASSOCIATE	*11*	**(4,763,637)**	4,477,567
INCOME BEFORE INCOME TAX		**940,062,849**	91,348,360
INCOME TAX EXPENSE (BENEFIT)	*30*	**252,205,481**	(180,504,209)
NET INCOME		**P687,857,368**	P271,852,569

See Notes to the Financial Statements.

Statement of Comprehensive Income

		Years Ended December 31	
	Note	**2013**	2012 (As restated - see Note 3)
NET INCOME		**P687,857,368**	P271,852,569
OTHER COMPREHENSIVE INCOME			
Items that may not be reclassified to profit or loss			
Net change in remeasurement gain (loss) on retirement plan	*27*	**30,836,767**	(87,460,650)
Net change in revaluation increment on property		**2,598,614**	(2,134,717)
		33,435,381	(89,595,367)
Items that may be reclassified to profit or loss			
Change in net unrealized (loss) gain of available-for-sale securities	*9*	**(1,940,375,262)**	346,549,808
Net movement in cumulative translation adjustments		**(25,081,288)**	1,912,598
Net change in other comprehensive (loss) income of associate	*11*	**(853,935)**	633,174
		(1,966,310,485)	349,095,580
		(1,932,875,104)	259,500,213
TOTAL COMPREHENSIVE (LOSS) INCOME		**(P1,245,017,736)**	P531,352,782

See Notes to the Financial Statements.

Statement of Changes in Equity

	Note	Capital Stock (Note 22)	Paid-in Surplus (Note 22)	Surplus Reserves (Note 23)	Deficit (see Note 3)	Net Unrealized Gains (Losses) on Available-for-Sale Securities (see Note 9)	Remeasurement Losses on Retirement Plan (see Notes 3 and 27)	Revaluation Increment on Property (see Note 12)	Share in Other Comprehensive Income of Associate (Note 11)	Cumulative Translation Adjustment	Total Equity
Balance as of December 31, 2012, as previously reported		P11,224,111,200	P8,748,529,687	P131,741,182	(P3,384,640,664)	P1,363,484,048	P -	P38,709,472	P633,174	P12,996,623	P18,135,564,722
Effect of change in accounting for retirement benefits (PAS 19R)	3	-	-	-	19,413,393	-	(212,812,973)	-	-	-	(193,399,580)
Balance as of December 31, 2012, as restated		11,224,111,200	8,748,529,687	131,741,182	(3,365,227,271)	1,363,484,048	(212,812,973)	38,709,472	633,174	12,996,623	17,942,165,142
Changes in fair value of available-for-sale (AFS) securities		-	-	-	-	(240,398,815)	-	-	-	-	(240,398,815)
Changes in fair value of AFS investments 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 loss of associate		-	-	-	-	-	-	-	(853,935)	-	(853,935)
Net income for the year		-	-	-	687,857,368	-	-	-	-	-	687,857,368
Total comprehensive loss for the year		-	-	-	687,857,368	(1,940,375,262)	30,836,767	2,598,614	(853,935)	(25,081,288)	(1,245,017,736)
Appropriation of surplus		-	-	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 of December 31, 2013		**P11,224,111,200**	**P8,748,529,687**	**P137,798,908**	**(P2,674,765,582)**	**(P576,891,214)**	**(P181,976,206)**	**P32,646,039**	**(P220,761)**	**(P12,084,665)**	**P16,697,147,406**

Forward

Statement of Changes in Equity
(con't)

	Note	Capital Stock (Note 22)	Paid-in Surplus (Note 22)	Surplus Reserves (Note 23)	Deficit (see Note 3)	Net Unrealized Gains (Losses) on Available-for-Sale Securities (see Note 9)	Remeasurement Losses on Retirement Plan (see Notes 3 and 27)	Revaluation Increment on Property (see Note 12)	Share in Other Comprehensive Income of Associate (Note 11)	Cumulative Translation Adjustment	Total Equity
Balance as of January 1, 2012, as previously reported		P11,224,097,475	P8,748,519,520	P128,310,356	(P3,702,687,933)	P1,016,934,240	(P125,352,323)	P104,059,953	P -	P11,084,025	P17,404,965,313
Effect of change in accounting for retirement benefits (PAS 19R)	3	-	-	-	5,823,155	-	-	-	-	-	5,823,155
Balance as of January 1, 2012, as restated		11,224,097,475	8,748,519,520	128,310,356	(3,696,864,778)	1,016,934,240	(125,352,323)	104,059,953	-	11,084,025	17,410,788,468
Changes in fair value of available-for-sale (AFS) securities		-	-	-	-	1,514,234,040	-	-	-	-	1,514,234,040
Changes in fair value of AFS investments taken to profit or loss		-	-	-	-	(1,167,684,232)	-	-	-	-	(1,167,684,232)
Net movement in cumulative translation adjustment		-	-	-	-	-	-	-	-	1,912,598	1,912,598
Related tax effect on revaluation increment realization		-	-	-	-	-	-	(2,134,717)	-	-	(2,134,717)
Change in remeasurement loss on retirement plan		-	-	-	-	-	(87,460,650)	-	-	-	(87,460,650)
Net change in other comprehensive income of associate		-	-	-	-	-	-	-	633,174	-	633,174
Net income for the year		-	-	-	271,852,569	-	-	-	-	-	271,852,569
Total comprehensive income for the year		-	-	-	271,852,569	346,549,808	(87,460,650)	(2,134,717)	633,174	1,912,598	531,352,782
Payment of subscription on capital stock		13,725	10,167	-	-	-	-	-	-	-	23,892
Appropriation of surplus		-	-	3,430,826	(3,430,826)	-	-	-	-	-	-
Transfer of revaluation increment realized through depreciation		-	-	-	63,215,764	-	-	(63,215,764)	-	-	-
		13,725	10,167	3,430,826	59,784,938	-	-	(63,215,764)	-	-	23,892
Balance as of December 31, 2012		P11,224,111,200	P8,748,529,687	P131,741,182	(P3,365,227,271)	P1,363,484,048	(P212,812,973)	P38,709,472	P633,174	P12,996,623	P17,942,165,142

See Notes to the Financial Statements.

Statements of Cash Flows

		Years Ended December 31	
	Note	2013	2012 (As restated - see Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P940,062,849**	P91,348,360
Adjustments for:			
Gain on sale of available-for-sale securities	*9, 26*	**(1,699,976,447)**	(1,167,684,232)
Impairment losses	*16*	**700,141,658**	736,481,262
Depreciation and amortization	*12, 13*	**303,582,305**	329,348,932
Gain on foreclosure, and sale of property and equipment and foreclosed assets - net	*12, 13, 14*	**(245,839,794)**	(126,868,424)
Amortization of software costs	*15*	**71,627,308**	43,351,706
Unrealized loss (gain) on financial assets and liabilities at fair value through profit or loss	*26*	**18,468,850**	(81,199,060)
Share in net loss (income) of associate	*11*	**4,763,637**	(4,477,567)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Interbank loans receivable and securities purchased under resale agreements		**-**	11,700,000,000
Financial assets at fair value through profit or loss		**608,757,264**	(627,546,546)
Loans and receivables		**(5,409,550,056)**	(7,639,967,498)
Other assets		**(31,051,475)**	83,345
Increase (decrease) in:			
Deposit liabilities		**34,397,862,388**	(5,915,350,201)
Manager's checks and acceptances payable		**(66,553,661)**	18,059,881
Accrued interest, taxes and other expenses		**48,488,821**	306,754,553
Other liabilities		**(3,903,866,879)**	4,325,864,333
Net cash generated from operations		**25,736,916,768**	1,988,198,844
Income taxes paid		**(280,918,410)**	(220,287,893)
Net cash provided by operating activities		**25,455,998,358**	1,767,910,951
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale or redemption of:			
Available-for-sale securities		**21,503,676,196**	74,978,119,703
Noncurrent assets held-for-sale		**199,112,750**	44,244,923
Investment properties		**184,342,278**	894,750,001
Property and equipment		**173,924,630**	103,591,327
Additions to:			
Available-for-sale securities		**(29,085,555,886)**	(70,896,486,679)
Property and equipment		**(282,357,245)**	(347,985,698)
Deferred software costs		**(186,516,645)**	(216,663,039)
Investment properties		**(9,427,330)**	(30,268,948)
Net cash (used in) provided by investing activities		**(7,502,801,252)**	4,529,301,590

Forward

	Note	2013	Years Ended December 31 2012 (As restated - see Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Bills payable	*18*	**(P1,162,270,341)**	(P878,524,090)
Payment of subscription on capital stock	*22*	**-**	23,892
Net cash used in financing activities		**(1,162,270,341)**	(878,500,198)
Effect of exchange rate differences		**(25,081,288)**	1,912,598
NET INCREASE IN CASH AND CASH EQUIVALENTS		**16,765,845,477**	5,420,624,941
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**1,332,509,976**	1,074,427,671
Due from Bangko Sentral ng Pilipinas		**16,601,523,891**	9,423,916,405
Due from other banks		**2,788,805,569**	3,208,540,979
Interbank loans receivable		**737,114,265**	2,332,443,705
		21,459,953,701	16,039,328,760
CASH AND CASH EQUIVALENTS AT END 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
		P38,225,799,178	P21,459,953,701
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received		**P3,681,846,598**	P3,731,157,383
Interest paid		**956,412,530**	1,117,396,636

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 122 branches nationwide as of December 31, 2013 and 2012.

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 Bank's financial statements as of and for the year ended December 31, 2013 were approved and authorized for issue by the BOD on February 28, 2014.

2. Basis of Preparation

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

a. Deferral of the full recognition of losses arising from the sale of nonperforming assets (NPAs) in 2007 and 2005 to a Special Purpose Vehicle (SPV), representing the allowance for credit losses of these NPAs that were reallocated by the Bank subsequent to the sale to cover its provisioning requirements for other risk assets and charging of the amortization of deferred charges to operations (This is allowed by BSP under the provisions of Republic Act (RA) No. 9182, *The Special Purpose Vehicle Act of 2002.*) (see Note 15); and

b. Deferral of the full recognition of the required impairment losses on the miscellaneous assets acquired by the Bank from Traders Royal Bank (TRB) under the Purchase and Sale Agreement (PSA) in 2002 (This is covered by MB Resolution No. 1751, dated November 8, 2001, as further amended by MB Resolution No. 489, dated April 3, 2003.) (see Notes 15 and 34)

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 net plan assets, which are carried at fair value 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 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, 2013 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.

- Philippine Accounting Standards (PAS) 19, *Employee Benefits* (Amended 2011). The amended PAS 19 includes the following requirements:

  - actuarial gains and losses are recognized immediately in other comprehensive income (OCI); this change removed the corridor method and eliminated the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss;
  - interest income recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation; and
  - unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

The Bank has applied the relevant transitional provisions of the amended standard on a retrospective basis and provided more extensive disclosures. The nature and effects of the changes are explained below:

Changes in Accounting Policy
As a result of PAS 19 (Amended 2011), the Bank has changed its accounting policy with respect to the elimination of the "corridor method" under which the recognition of actuarial gains and losses could be deferred, and the recognition of unvested past service costs as an expense on a straight line basis over the average vesting period until the benefits become vested. Instead, all actuarial gains and losses are recognized immediately in OCI and all unvested past service costs are recognized in profit or loss in the period they occur.

Furthermore, the Bank determines the net interest expense (income) on the net defined 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 then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises: interest cost on the defined benefit obligation, interest income on plan assets, and interest on the effect on the asset ceiling. Previously, the Bank determined interest income on plan assets based on their long-term rate of expected return.

Summary of Quantitative Impacts
The following tables summarize the impacts of the above changes on the Bank's financial position and comprehensive income.

The impact of the PAS 19 (Amended 2011) as of January 1, 2012 follows:

	As Previously Reported	Effect of Adoption of Revised PAS 19	As Restated
Statement of Financial Position			
Retirement benefit liability (asset)	(P41,564,531)	P119,529,168	P77,964,637
Deficit	(3,702,687,933)	5,823,155	(3,696,864,778)
Remeasurement losses on retirement plan	-	(125,352,323)	(125,352,323)

The impact of the PAS 19 (Amended 2011) as of December 31, 2012 follows:

	Note	As Previously Reported	Effect of Adoption of Revised PAS 19	As Restated
Statement of Financial Position				
Retirement benefit (asset) liability	*20*	(P69,204,047)	P193,399,580	P124,195,533
Deficit		(3,384,640,664)	19,413,393	(3,365,227,271)
Remeasurement losses on retirement plan		-	(212,812,973)	(212,812,973)

	As Previously Reported	Effect of Adoption of Revised PAS 19	As Restated
Statement of Comprehensive Income			
Retirement benefit expense	(P76,736,343)	P13,590,238	(P63,146,105)
Increase in net income	-	13,590,238	-
Remeasurement losses on retirement plan	-	(87,460,650)	(87,460,650)
Decrease in OCI	-	(87,460,650)	-
Overall impact on total comprehensive income	P -	(P73,870,412)	P -

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

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

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

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

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

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

- PFRS 13, *Fair Value Measurement*

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

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

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

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

- *Annual Improvements to PFRSs 2009 - 2011 Cycle* - various standards contain amendments to five standards with consequential amendments to other standards and interpretations. The following are the said improvements or amendments to PFRSs, none of which has a significant effect on the financial statements of the Bank:

  - PAS 1, *Presentation of Financial Statements* - Comparative Information beyond Minimum Requirements. This is amended to clarify that only one comparative period - which is the preceding period - is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with PFRSs.

    For example, if an entity elects to present a third statement of comprehensive income, then this additional statement should be accompanied by all related notes, and all such additional information should be in accordance with PFRSs. However, the entity need not present:

    - other primary statements for that additional comparative period, such as a third statement of cash flows; or
    - the notes related to these other primary statements.

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

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

      has a material effect upon the information in that statement of financial position;

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

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

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

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

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

  A similar consequential amendment has also been made to Philippine Interpretation of International Financial Reporting Interpretations Committee (IFRIC) 2, *Members' Share in Co-operative Entities and Similar Instruments.*

Foreign Currency Transactions

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

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

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

Thus, in accordance with Manual of Regulations for Banks (MORB) and BSP Circular 691 issued 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 "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 of December 31, 2013 and 2012, cumulative translation adjustment of P12.1 million and P13.0 million, respectively, was recognized in the statements of financial position and statements of changes in equity.

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

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

Initial Recognition of Financial Instruments
All financial instruments, whether financial assets or financial liabilities, are initially measured at fair value. Except for financial assets and financial liabilities valued at FVPL, initial measurement includes transaction costs. The Bank classifies its financial assets into financial assets at FVPL, AFS securities 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. 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 profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

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

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 in profit or loss 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 2013 and 2012, 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 through profit or loss when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL, when their economic risks and characteristics are not closely related to those of their respective host contracts, and when a separate instrument with the same terms as the embedded derivatives would meet the definition of a derivative. The Bank assesses whether embedded derivatives are required to be separated from the host contracts when the Bank first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

Financial Assets or Financial Liabilities Designated at FVPL

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

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

Loans and Receivable

Loans and receivables include cash and other cash items, 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 impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate (EIR). The amortization is recognized in profit or loss as interest income.

When the estimated cash flows from the financial assets are revised, the carrying amount of the financial asset shall be adjusted to reflect the actual and revised estimated cash flows. The carrying amount shall be computed as the present value of estimated future cash flows at the financial instrument's original EIR, or, when applicable, the revised EIR. Any difference shall be recognized as "Impairment 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, private securities and other debt securities (e.g., host contracts of structured products).

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

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

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

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

Government Loans with Low Interest Rates
Government loans with low interest rates such as that granted by the Philippine Deposit and Insurance Company (PDIC), as discussed in Note 18 to the financial statements, are recognized initially at fair values, and the difference between the fair value of the loan and the proceeds of the loan is considered as a form of government grant and is recognized in profit or loss over the period of the loan using effective interest method.

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

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

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

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

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

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

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

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

Impairment of Financial Assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) 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 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, 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 impairment losses in profit or loss.

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

In case of equity securities classified as AFS securities, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the equity securities previously recognized in profit or loss - is removed from equity and recognized in profit or loss for the period. Impairment losses recognized in profit or loss on equity securities classified as AFS are not reversed to profit or loss but recognized directly in equity as part of OCI.

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

Fair Value Measurement
The Bank measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, 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 economic best interest.

A 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 both recurring fair value measurement, such as financial assets at FVPL, and for non-recurring measurement, such as investment properties.

External valuers are involved for valuation of significant assets, such as investment properties. 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.

<u>'Day 1' Difference</u>
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.

<u>Offsetting</u>
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.

<u>Cash and Cash Equivalents</u>
For purposes of reporting cash flows, cash and other cash items include cash and other cash items, amounts due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements with original maturities of three months or less from dates of placement and that are subject to insignificant risk of changes in value.

Cash and other cash items (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 Investment and Capital Corporation (formerly Bancommerce Investment Corporation) (BIC) represents 24.25% of BIC's capital stock. Accordingly, the Bank's equity investment in BIC is treated as an investment in an associate accounted for under the equity method of accounting.

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

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

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

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

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

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

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

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

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

Estimated useful lives of property and equipment are as follows:

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

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

Investment Properties

Investment properties are composed of assets acquired from foreclosure or dacion en pago, 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 cost less accumulated depreciation and impairment in value, except for land which is carried at cost less any impairment in value.

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

Depreciation is calculated on a straight-line basis based on the useful lives of the building which ranges from 5 - 50 years from the time of acquisition.

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

An investment property is derecognized when it has either been disposed of or when it is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the derecognition of an investment property is recognized in profit or loss under "Gains on foreclosure, 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 profit or loss in the period when the expenditure is incurred.

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

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

Software Costs
Software costs (classified under "Other assets" account (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 five years. Software costs are carried at cost less accumulated amortization and any impairment in value.

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

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

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

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

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

<u>Impairment of Nonfinancial Assets</u>
Property and Equipment, Investment Properties, Non-current Assets Held for Sale and Intangible Assets
At each reporting date, the Bank assesses whether there is any indication of impairment on property and equipment, investment properties, intangible assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of net recoverable amount. The net recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the net recoverable amount is assessed as part of the cash-generating unit to which it belongs. Value in use is the present value of future cash flows expected to be derived from an asset or cash-generating unit while fair value less cost to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable and willing parties less 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 profit or loss.

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

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

Interest Income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS securities, interest income is recognized using the effective interest method. The EIR of a financial instrument is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recognized in profit or loss as interest income.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR used to discount future cash flows.

Trading and Investment Securities Gains or Losses
Trading and investment securities gains or losses represent results arising from disposal of AFS securities and trading activities (realized gains and losses) and from the changes in fair value of financial assets and 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 profit or loss on a straight-line basis over the term of the lease.

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

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

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 profit or loss.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions

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

Contingent Assets and Contingent Liabilities

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

Related Parties

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

Events After the Reporting Date

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

Fiduciary Activities

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

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing these financial statements. However, none of these is expected to have a significant effect on the financial statements of the Bank, except for PFRS 9, *Financial Instruments*, which does not still have mandatory date of effectivity and could change the classification and measurement of financial assets, which the Bank is currently assessing the impact on its financial statements.

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

To be Adopted on January 1, 2014

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

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

  These amendments are effective for annual periods beginning on or after January 1, 2014 and are to be applied retrospectively.

- *Recoverable Amount Disclosures for Non-financial Assets (Amendments to PAS 36).* 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.

  The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. Earlier application is permitted for periods when the entity has already applied PFRS 13.

To be Adopted (No definite date - Originally January 1, 2015)

- PFRS 9, *Financial Instruments* (2009), PFRS 9, *Financial Instruments* (2010) and PFRS 9, *Financial Instruments* (2013)

  PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities.

  PFRS 9 (2013) introduces the following amendments:

  - A substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements;
  - Changes to address the so-called 'own credit' issue that were already included in PFRS 9, *Financial Instruments* to be applied in isolation without the need to change any other accounting for financial instruments; and
  - Removes the January 1, 2015 mandatory effective date of PFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

The International Accounting Standards Board (IASB) is currently discussing some limited amendments to the classification and measurement requirements in International Financial Reporting Standards (IFRS) 9 and is also discussing the expected credit loss impairment model to be included in IFRS 9. Once those deliberations are complete the IASB expects to publish a final version of IFRS 9 that will include all of the phases: Classification and Measurement; Impairment and Hedge Accounting. That version of IFRS 9 will include a new mandatory effective date.

4. Critical Judgments and Estimates

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

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

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

(a) 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 of December 31, 2013 and 2012, the required allowance for impairment losses on AFS equity securities amounted to P345.6 million and P345.3 million, respectively (see Notes 9 and 16). As of December 31, 2013 and 2012, AFS equity securities amounted to P144.4 million and P142.4 million, respectively (see Note 9).

As of December 31, 2013, the required allowance for impairment losses on AFS debt securities amounted to P352.3 million (see Notes 9 and 16). As of December 31, 2013 and 2012, AFS debt securities amounted to P26.5 billion and P20.0 billion, respectively (see Note 9).

As of December 31, 2013 and 2012, the carrying value of AFS securities of the Bank amounted to P26.7 billion and P20.2 billion, respectively (see Note 9).

(b) *Valuation of Unquoted Equity Securities*

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

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

The determination of the cash flows and discount factors for unquoted equity securities requires significant estimation. The Bank calibrates the valuation techniques periodically and tests them for validity using either prices from observable current market transactions of the same instrument or from other available observable market data.

As of December 31, 2013 and 2012, the carrying value of unquoted AFS equity securities of the Bank amounted to P37.8 million and P35.8 million, respectively (see Note 9).

(c) Impairment and Credit Losses on Loans and Receivables

The Bank reviews its loans and receivables portfolio to assess impairment at least on an annual basis or more frequently as deemed necessary. Loans and receivables that are individually significant are assessed to determine whether objective evidence of impairment exists on an individual basis, while those that are not individually significant are assessed for objective evidence of impairment on a collective basis. In determining whether an impairment loss should be recognized in profit or loss, the Bank makes judgments as to whether there are any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. As of December 31, 2013 and 2012, required allowance for credit losses on loans and receivables amounted to P3.8 billion and P4.0 billion, respectively (see Notes 10 and 16). The carrying value of loans and receivables amounted to P46.0 billion and P40.3 billion as of December 31, 2013 and 2012, respectively (see Note 10).

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

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

(d) Recognition of Deferred Tax Assets

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

The estimates of future taxable income indicate that certain temporary differences will be realized in the future. As discussed in Note 30 to the financial statements, the Bank recognized deferred tax assets amounting to P832.5 million and P814.8 million as of December 31, 2013 and 2012, 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 P1.2 billion and P1.5 billion as of December 31, 2013 and 2012, respectively (see Note 30).

(e) Impairment of Nonfinancial Assets

Property and Equipment, Investment Properties, Non-current Assets Held for Sale and Software Costs

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

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

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

As of December 31, 2013 and 2012, the combined carrying value of the property and equipment, investment properties, noncurrent assets held for sale and software costs amounted to P5.0 billion and P5.2 billion, respectively.

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

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

(g) Present Value of Retirement Benefits Obligation

The cost of retirement benefits and other post employment benefits are determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, 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 of reporting date. The present value of the Bank's retirement obligation amounted to P627.3 million and P529.8 million as of December 31, 2013 and 2012, respectively (see Note 27). As of December 31, 2013 and 2012, the net retirement liability of the Bank amounted to P134.0 million and P124.2 million (restated), 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 risks.

BOD

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

Corporate Governance Committee

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

Audit Committee

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

Board Risk Oversight Committee (BROC)

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

Risk Management Division (RSK)

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

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

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

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

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

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

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

Risk measurements are done by respective risk taking personnel and groups but are independently validated, analyzed and reported by the 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, Auditcom as well as the Senior Executive Team of the Bank.

Actual and estimated risk exposures/losses at Treasury, Credit Management, Operations , 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.

Excessive Risk Concentration

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

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

Credit Risk

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

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

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

Derivative Financial Instruments

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

Credit-related Commitment Risks

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

Credit Risk Exposures

The table below shows the Bank's maximum exposure for receivables from customers and sales contract receivable after collateral to credit risk as of December 31, 2013 and 2012:

	December 31, 2013		December 31, 2012	
	Maximum Exposure		Maximum Exposure	
	Before Collateral	**After Financial Effect of Collateral or Credit Enhancement**	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
Receivable from customers:				
Term loans	**P37,528,925,491**	**P30,319,040,159**	P20,959,365,063	P20,132,002,417
Direct advances	**648,148,328**	**124,195,834**	9,389,957,408	6,139,745,144
Bills purchased, import bills and trust receipts	**1,832,402,011**	**1,795,093,929**	4,807,051,347	4,807,051,347
Agri-agra loans	**331,395,925**	**288,535,307**	419,640,100	337,999,862
Others	**3,225,987,285**	**2,186,511,601**	2,148,727,044	1,444,874,590
	43,566,859,040	**34,713,376,830**	37,724,740,962	32,861,673,360
Sales contracts receivable	**1,271,385,348**	**1,556,036**	1,422,158,955	-
	P44,838,244,388	**P34,714,932,866**	P39,146,899,917	P32,861,673,360

As of December 31, 2013 and 2012, fair value of collateral held for loans and receivables amounted to P18.3 billion and P11.0 billion, respectively.

For the other financial assets, the carrying amounts represent the maximum exposure to credit risk as of December 31, 2013 and 2012.

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

The main types of collateral obtained are as follows:

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

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

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

Credit Quality Per Class of Financial Assets

The credit quality of financial assets is assessed and managed by the Bank using external and internal credit ratings.

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

	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*

	December 31, 2012			
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Total
Neither past due nor impaired	P34,368,047	P20,127,444	P21,172,017	P75,667,508
Past due but not impaired	168,874	-	-	168,874
Impaired	9,750,499	-	445,737	10,196,236
Gross	44,287,420	20,127,444	21,617,754	86,032,618
Less allowance for credit losses	3,968,441	-	345,297	4,313,738
Net	P40,318,979	P20,127,444	P21,272,457	P81,718,880

* *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, 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**
Returned checks and other check items (RCOCI)	**-**	**-**	**-**	**-**	**4,595**	**4,595**
	P6,871,743	**P19,163,848**	**P9,008,752**	**P5,757,407**	**P9,089,808**	**P49,891,558**

	December 31, 2012					
	Neither Past Due nor Individually Impaired					
	High Grade	Standard Grade	Substandard	Unrated	Past Due or Impaired	Total
Loans and receivables:						
Receivable from customers	P4,202,759	P19,301,374	P3,005,988	P6,420,665	P7,046,907	P39,977,693
Sales contracts receivable	-	-	-	1,002,292	419,867	1,422,159
Unquoted debt securities	-	-	-	193	1,399,030	1,399,223
Accrued interest receivable	-	-	-	624,020	290,209	914,229
Accounts receivable	-	-	-	-	757,033	757,033
RCOCI	-	-	-	-	6,327	6,327
	P4,202,759	P19,301,374	P3,005,988	P8,047,170	P9,919,373	P44,476,664

Borrower Risk Rating Disclosure

In compliance with the BSP, the Bank implemented in 2007 a credit risk classification that is compliant with global rating standards. The Borrower Risk Rating (BRR) is the evaluation of the creditworthiness of an existing or prospective borrower, with an asset size of P15.0 million and above. In 2008, the Bank has expanded its credit risk classification by implementing the BRR for asset size of below P15.0 million (exclusive of the land used for operations). The account is evaluated independent of any influence from any transactional factors.

The BRR is used to determine the credit quality of the Bank's loan accounts. Loan accounts are classified according to a 1 - 10 rating scale based on BRR results, as follows:

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

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

<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 three years, no history of payment default in the last twelve months, satisfactory payment record, unlikely to be affected by existing or future disruptions and competent under current business model.

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

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

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

Watchlist - BRR 6
Automatically rated as Watchlist are start up companies.

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.

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, 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 other 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*

	December 31, 2012		
	AA - A	Below BBB or Unrated	Total
Loans and advances to banks:			
Due from BSP	P -	P16,601,523,891	P16,601,523,891
Due from other banks	2,227,220,890	561,584,679	2,788,805,569
Interbank loans receivable and SPURA	737,114,265	-	737,114,265
	2,964,335,155	17,163,108,570	20,127,443,725
Financial assets at FVPL:			
Government securities held for trading	-	1,029,731,979	1,029,731,979
Derivative assets*	51,080,896	21,551,250	72,632,146
Other debt securities	-	1,403,278	1,403,278
	51,080,896	1,052,686,507	1,103,767,403
AFS securities - gross:			
Quoted government securities	-	14,260,935,281	14,260,935,281
Quoted other debt securities	1,363,905,166	410,143,000	1,774,048,166
Unquoted other debt securities	3,991,349,296	-	3,991,349,296
Quoted equity securities	-	146,737,431	146,737,431
Unquoted equity securities	-	340,916,785	340,916,785
	5,355,254,462	15,158,732,497	20,513,986,959
Loans and receivables - gross:			
Unquoted debt securities	797,168,422	602,054,290	1,399,222,712
	797,168,422	602,054,290	1,399,222,712
	P9,167,838,935	P33,976,581,864	P43,144,420,799

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

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

	2013	2012
Term loans	**P1,704,579,491**	P2,191,245,903
Agri-agra loans	**-**	361,334,969
Direct advances	**-**	9,315,374
Others	**21,346,596**	22,708,481
	P1,725,926,087	P2,584,604,727

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, 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**

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

Impairment Assessment

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

BSP Regulatory Reporting - Credit Risk

The Bank calculates its credit risk-weighted assets using the standardized approach, the simplest of the three 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 of December 31, 2013 and 2012 as reported to the BSP follows (amounts in thousands):

	2013	2012
Risk-weighted on-balance sheet assets	**P58,535,649**	P57,106,157
Risk-weighted off-balance sheet assets	**372,915**	218,289
Counterparty risk-weighted assets in the trading book	**107,501**	380,590
	P59,016,065	P57,705,036

The Bank's credit risk-weighted exposures arising from on-balance sheets assets amounting to P58.5 billion contributed 99.0% of the credit exposures of the Bank. Credit risk-weighted off-balance sheet assets amounting to P0.4 billion and counterparty risk-weighted assets in the trading book amounting to P0.1 billion make up the remainder. The off-balance sheet assets and the assets in the trading book were 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 two or more ratings which correspond into different risk weights, the higher of the two lowest risk weights is used.

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

	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**	**P6,418,859**	**P47,369,760**	**P4,409,534**	**P58,535,446**
Total risk-weighted on-balance sheet assets covered by CRM					**204**	**-**	**-**	**-**	**204**
Total risk-weighted on-balance sheet assets					**P337,497**	**P6,418,859**	**P47,369,760**	**P4,409,534**	**P58,535,650**

	December 31, 2012								
				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	P1,321,281	P -	P1,321,281	P1,321,281	P -	P -	P -	P -	P1,321,281
COCI	11,229	-	11,229	-	11,229	-	-	-	11,229
Due from BSP	16,603,847	-	16,603,847	16,603,847	-	-	-	-	16,603,847
Due from other banks	3,357,348	-	3,357,348	-	2,189,804	685,908	481,635	-	3,357,347
AFS Securities	18,564,632	-	18,564,632	8,098,653	40,875	1,276,336	9,148,769	-	18,564,633
UDSCL	10,343	-	10,343	-	-	-	10,343	-	10,343
Loans and receivables	37,128,393	1,935,647	35,192,746	-	168,595	849,984	33,118,902	1,055,265	35,192,746
Sales contracts receivable	1,458,109	-	1,458,109	-	-	-	1,018,880	439,229	1,458,109
Real and Other Properties Acquired (ROPA)	2,269,951	-	2,269,951	-	-	-	-	2,269,951	2,269,951
Total exposures, excluding other assets	80,725,133	1,935,647	78,789,486	26,023,781	2,410,503	2,812,228	43,778,529	3,764,445	78,789,486
Other assets	8,588,414	-	8,588,414	2,795,917	-	-	5,792,497	-	8,588,414
Total exposures, including other assets	P89,313,547	P1,935,647	P87,377,900	P28,819,698	P2,410,503	P2,812,228	P49,571,026	P3,764,445	P87,377,900
Total risk-weighted on-balance Sheet assets not covered by CRM					P482,101	P1,406,114	P49,571,026	P5,646,667	P57,105,908
Total risk-weighted on-balance sheet assets covered by CRM					249	-	-	-	249
Total risk-weighted on-balance sheet assets					P482,350	P1,406,114	P49,571,026	P5,646,667	P57,106,157

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, 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	**398,437**	**398,437**	**397,415**	**1,022**	**398,437**	**398,437**
Loans to individuals for consumption and other purposes	**367,460**	**367,460**	**367,460**	**-**	**367,460**	**367,460**
Total exposures covered by CRM	**P1,865,897**	**P1,865,897**	**P1,864,875**	**P1,022**	**P1,865,897**	**P1,865,897**
Risk-weighted on-balance sheet assets covered by CRM				**P204**	**P204**	

	December 31, 2012					
	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	835,647	835,647	834,400	1,247	835,647	835,647
Total exposures covered by CRM	P1,935,647	P1,935,647	P1,934,400	P1,247	P1,935,647	P1,935,647
Risk-weighted on-balance sheet assets covered by CRM				P249	P249	

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 (MCO) limit. This process measures and estimates projected funding requirements that the Bank will need at specific time periods.

Analysis of Financial Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as of December 31, 2013 and 2012 based on contractual undiscounted repayment obligations (in millions).

	December 31, 2013					
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Total**
Deposit liabilities:						
Demand	**P20,377**	**P -**	**P -**	**P -**	**P -**	**P20,377**
Savings	**12,621**	**45,939**	**2,479**	**-**	**-**	**61,039**
Time	**27**	**12,443**	**3,907**	**2,861**	**-**	**19,238**
Bills payable	**-**	**1**	**271**	**1**	**1**	**274**
Manager's check and acceptances payable	**-**	**305**	**-**	**-**	**-**	**305**
Accrued interest and other expenses	**-**	**307**	**-**	**-**	**-**	**307**
Other liabilities*	**-**	**-**	**2,434**	**256**	**-**	**2,690**
Total undiscounted financial liabilities	**P33,025**	**P58,995**	**P9,091**	**P3,118**	**P1**	**P104,230**

**amounts exclude withholding tax payable*

	December 31, 2012					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Deposit liabilities:						
Demand	P15,390	P -	P -	P -	P -	P15,390
Savings	12,568	17,844	859	-	-	31,271
Time	31	12,400	3,756	3,626	-	19,813
Bills payable	-	37	58	479	2,702	3,276
Manager's check and acceptances payable	-	372	-	-	-	372
Accrued interest and other expenses	-	367	-	-	-	367
Other liabilities*	-	-	5,230	343	-	5,573
Total undiscounted financial liabilities	P27,989	P31,020	P9,903	P4,448	P2,702	P76,062

**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, 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**

	December 31, 2012				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Commitments	P -	P61,764	P163,731	P -	P225,495
Contingent liabilities	32,562,211	1,727,604	16,401	1,801,208	36,107,424
	P32,562,211	P1,789,368	P180,132	P1,801,208	P36,332,919

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.

BSP Regulatory Reporting - Market Risk

Market risk-weighted assets by type of exposure as of December 31, 2013 and 2012 as reported to the BSP follows (amounts in thousands):

	2013	2012
Foreign exposures	**P1,247,141**	P448,873
Interest rate exposures	**591,516**	4,753,603
	P1,838,657	P5,202,476

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 (CRAMPS) 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 of December 31, 2013 and 2012, based on reporting made to BSP.

	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**
Bonds payable	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Subordinated debt	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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)**	

	2012								
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 -	P1,333	P1,333
Due from BSP	-	-	-	-	-	-	-	16,602	16,602
Due from other banks	-	-	-	-	-	-	-	3,357	3,357
Interbank loans receivables	169	-	-	-	-	-	-	-	169
Financial assets at FVPL	-	-	-	-	-	-	-	1,137	1,137
Available-for-sale securities - net	-	9,529	-	-	1,665	44	7,548	1,282	20,068
Other investments - net	-	-	-	-	1	23	201	340	565
Loans - net	21,053	9,540	-	50	330	-	-	5,628	36,601
Other resources	930	56	14	2	-	-	-	11,868	12,870
	P22,152	P19,125	P14	P52	P1,996	P67	P7,749	P41,547	P92,702
LIABILITIES AND EQUITY									
Deposit liabilities	P23,491	P6,743	P2,739	P1,794	P2,154	P1,013	P -	P27,959	P65,893
Demand deposits	-	-	-	-	-	-	-	15,391	15,391
Savings deposits	-	-	-	-	-	-	-	12,568	12,568
Time deposits	23,491	6,743	2,739	1,794	2,154	1,013	-	-	37,934
Bills payable	-	148	102	-	-	-	1,184	-	1,434
Bonds payable	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	7,437	7,437
	23,491	6,891	2,841	1,794	2,154	1,013	1,184	35,396	74,764
Capital funds	-	-	-	-	-	-	-	17,938	17,938
	P23,491	P6,891	P2,841	P1,794	P2,154	P1,013	P1,184	P53,334	P92,702
Total periodic gap	(P1,339)	P12,234	(P2,827)	(P1,742)	(P158)	(P946)	P6,565	(P11,787)	

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, 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**	**(9)**	**(3,865)**
USD	**+100**	**14**	**(354)**
PHP	**-200**	**9**	**3,865**
USD	**-100**	**(14)**	**354**

	December 31, 2012		
Currency	Changes in Interest Rates (In Basis Points)	Sensitivity of Net Interest Income (In Millions)	Sensitivity of Other Comprehensive Income (In Millions)
PHP	+200	238	(1,586)
USD	+100	10	(550)
PHP	-200	(238)	1,586
USD	-100	(10)	550

The sensitivity of the results of operations is measured as the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate of financial assets and financial liabilities held as of December 31, 2013 and 2012. The sensitivity of OCI is calculated by revaluing fixed-rate AFS debt securities as of December 31, 2013 and 2012. 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 2013 and 2012, 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 of December 31, 2013 and 2012. 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, 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**
Manager's checks and acceptances payable	**-**	**-**	**-**	**-**
Other liabilities	**915**	**-**	**-**	**915**
Total liabilities	**915**	**569**	**-**	**1,484**
Net Exposure	**$11,345**	**$191**	**$803**	**$12,339**

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

The table below indicates the currencies which the Bank has significant exposure to at December 31, 2013 and 2012 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, 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**
December 31, 2012				
Currency				
USD	P1.00	P3.04	(P1.00)	P3.04
Euro	0.50	0.22	(0.50)	(0.22)
Others	0.40	(1.14)	(0.40)	1.14

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 instruments are as follows:

COCI - Fair values approximate carrying amounts.

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

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

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

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

Loans and Receivables - The estimated fair value of loans and receivables is equivalent to the estimated future cash flows expected to be received discounted using current market rates.

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

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

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

Fair Value Hierarchy

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

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Set out below is a comparison by category of carrying amounts and fair values of financial assets and financial liabilities as of December 31, 2013 and 2012 (in thousands):

	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
	439,887	414,732	25,155	-	439,887
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 other debt securities	2,374,946	-	2,374,946	-	2,374,946
Quoted equity securities	106,605	106,605	-	-	106,605
Unquoted equity securities	37,786	-	-	37,786	37,786
	26,675,350	24,262,618	2,374,946	37,786	26,675,350
	P27,115,237	P24,677,350	P2,400,101	P37,786	P27,115,237

	December 31, 2012				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL:					
Government securities held for trading	P1,029,732	P1,029,732	P -	P -	P1,029,732
Derivative assets	72,632	-	72,632	-	72,632
Other debt securities	1,403	1,403	-	-	1,403
	1,103,767	1,031,135	72,632	-	1,103,767
AFS securities:					
Quoted government securities	14,260,936	14,260,936	-	-	14,260,936
Quoted other debt securities	1,774,048	1,774,048	-	-	1,774,048
Unquoted other debt securities	3,991,349	-	3,991,349	-	3,991,349
Quoted equity securities	106,605	106,605		-	106,605
Unquoted equity securities	35,752	-	-	35,752	35,752
	20,168,690	16,141,589	3,991,349	35,752	20,168,690
	P21,272,457	P17,172,724	P4,063,981	P35,752	P21,272,457

	December 31, 2013					December 31, 2012	
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	Carrying Value	Fair Value
Liabilities Measured at Fair Value							
Financial Liabilities							
Financial liabilities at FVPL	**P10,880**	**P -**	**P10,880**	**P -**	**P10,880**	P47,535	P47,535

	December 31, 2013					December 31, 2012	
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	Carrying Value	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**	P1,332,510	P1,332,510
Due from BSP and other banks	**34,191,117**	**-**	**34,191,117**	**-**	**34,191,117**	19,390,330	19,390,330
Interbank loans receivable	**2,362,692**	**-**	**2,362,692**	**-**	**2,362,692**	737,114	737,114
	38,225,799	**-**	**38,225,799**	**-**	**38,225,799**	21,459,954	21,459,954
Receivable from customers	**43,695,723**	**-**	**44,990,624**	**-**	**44,990,624**	37,913,985	38,379,002
Less unearned interest	**128,864**	**-**	**128,864**	**-**	**128,864**	189,244	189,244
	43,566,859	**-**	**44,861,760**	**-**	**44,861,760**	37,724,741	38,189,758
Sales contract receivable	**1,271,385**	**-**	**1,271,385**	**-**	**1,271,385**	1,422,159	1,422,159
Accrued interest receivable	**711,130**	**-**	**711,130**	**-**	**711,130**	680,874	680,874
Accounts receivable	**342,910**	**-**	**342,910**	**-**	**342,910**	242,943	242,943
Unquoted debt securities	**106,276**	**-**	**106,276**	**-**	**106,276**	241,935	241,935
RCOCI	**4,595**	**-**	**4,595**	**-**	**4,595**	6,327	6,327
	46,003,155	**-**	**47,298,056**	**-**	**47,298,056**	40,318,979	40,783,996
	84,228,954	**-**	**85,523,855**	**-**	**85,523,855**	61,778,933	62,243,950
Non-financial Assets							
Investment properties	**2,576,945**	**-**	**4,026,212**	**-**	**4,026,212**	2,676,945	4,350,870
	P86,805,899	**P -**	**P89,550,067**	**P -**	**P89,550,067**	P64,455,878	P66,594,820

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

The following table shows the Bank's reconciliation from the beginning balance to the closing balances of financial assets with fair value measurements under level 3 of the fair value hierarchy as of December 31, 2013 and 2012 (in thousands):

	Unquoted Equity Securities	
	2013	2012
Balance at beginning of year	**P35,752**	P112,223
Add:		
Unrealized gains during the year	**2,034**	-
	2,034	-
Less:		
Unrealized losses during the year	**-**	821
Disposals	**-**	3,333
Impairment loss	**-**	72,317
Reclassification	**-**	-
	-	76,471
Balance at end of year	**P37,786**	P35,752

7. Interbank Loans Receivable and Securities Purchased under Resale Agreement

This account consists of interbank loans receivables amounting to P2.4 billion and P737.1 million as of December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012, the Bank has no outstanding SPURA.

Interest income on interbank loans receivable and SPURA follows:

	2013	2012
Interbank loans receivable	**P2,761,304**	P5,977,592
SPURA	**17,072,708**	182,410,313
	P19,834,012	P188,387,905

In 2013 and 2012, peso-denominated interbank loans receivables bear interest rates ranging from 2.0% to 3.6% and from 3.6% to 5.0%, respectively. Dollar-denominated interbank loans receivables bear interest rates ranging from 0.1% to 1.3% and from 0.0% to 1.1% in 2013 and 2012, respectively.

In 2013 and 2012, interest rates earned on SPURA averaged 3.5% and 4.0%, respectively.

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

Financial assets at FVPL consist of:

	2013	2012
Government securities held for trading	**P413,295,075**	P1,029,731,979
Derivative assets	**25,154,518**	72,632,146
Private debt securities held for trading	**1,437,537**	1,403,278
	P439,887,130	P1,103,767,403

Financial liabilities at FVPL, on the other hand, represent the change in fair value of the Bank's credit derivatives. As of December 31, 2013 and 2012, the financial liabilities at FVPL amounted to P10.9 million and P47.5 million, respectively (see Note 36).

As of December 31, 2013 and 2012, financial assets and liabilities through FVPL are adjusted for unrealized loss of P18.5 million and unrealized gain of P81.2 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 of December 31, 2013 and 2012 and is not indicative of either market risk or credit risk.

	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**

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

9. Available-for-Sale Securities

This account consists of (amounts in thousands):

	Note	**2013**	2012
Quoted AFS Securities			
Government securities		**P22,457,589**	P14,260,936
Other debt securities		**1,698,424**	1,774,048
Quoted equity securities, net of allowance for impairment losses of P40.1 million as of December 31, 2013 and 2012	*16*	**106,605**	106,605
		24,262,618	16,141,589
Unquoted AFS Securities			
Debt securities, net of allowance for impairment losses of P352.3 million and nil as of December 31, 2013 and 2012, respectively	*16, 36*	**2,374,946**	3,991,349
Equity securities, net of allowance for impairment losses of P305.5 million and P305.2 million as of December 31, 2013 and 2012, respectively	*16*	**37,786**	35,752
		P26,675,350	P20,168,690

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 government securities (GS) which was previously pledged as a collateral for the Financial Assistance Agreement (FAA) with PDIC. The GS had a face value of P1.8 billion and was sold at P3.2 billion. The sale transaction resulted to a trading gain for the Bank amounting to P1.2 billion. The trading gain was applied in accordance with the condition provided in MB Resolution No. 1950 (see Note 18).

Unquoted AFS Securities

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

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

	Note	**2013**	2012
Balance at beginning of year		**P1,363,484,048**	P1,016,934,240
Unrealized (loss) gain recognized as other comprehensive income		**(240,398,815)**	1,514,234,040
Realized gains taken to profit or loss	*26*	**(1,699,976,447)**	(1,167,684,232)
Balance at end of year		**(P576,891,214)**	P1,363,484,048

10. Loans and Receivables

This account consists of:

	Note	2013	2012
Receivables from customers:			
Term loans		**P38,955,838,671**	P22,139,909,671
Bills purchased, import bills and trust receipts		**1,925,235,189**	4,886,505,417
Direct advances		**832,595,586**	10,085,078,926
Agri-agra loans		**337,577,942**	539,735,573
Others		**3,410,595,423**	2,326,463,281
		45,461,842,811	39,977,692,868
Less unearned interest income		**128,863,568**	189,244,328
		45,332,979,243	39,788,448,540
Sales contracts receivable		**1,272,941,384**	1,422,158,955
Unquoted debt securities	*36*	**1,361,551,834**	1,399,222,712
Accrued interest receivable:			
Loans and receivables		**612,420,187**	586,638,288
Trading and investment securities		**323,685,377**	325,244,693
Due from BSP and other banks		**3,266,667**	2,322,778
Interbank loans and SPURA		**10,199**	23,174
Accounts receivable		**851,245,013**	757,033,433
Returned checks and other check items		**4,594,771**	6,327,195
		49,762,694,675	44,287,419,768
Less allowance for credit losses	*16*	**3,759,539,296**	3,968,440,896
		P46,003,155,379	P40,318,978,872

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

Regulatory Reporting

As of December 31, 2013 and 2012, the breakdown of receivables from customers as to collateral follows (amounts in thousands, except percentages):

	2013		2012	
	Amount	**%**	Amount	%
Loans secured by:				
Real estate	**P6,734,140**	**14.8**	P5,847,617	14.6
Chattel	**2,478,986**	**5.5**	4,277,378	10.7
Deposit hold-out	**1,930,799**	**4.2**	1,992,156	5.0
Deed of assignment and others	**8,397,693**	**18.5**	2,342,860	5.9
	19,541,618	**43.0**	14,460,011	36.2
Unsecured	**25,920,225**	**57.0**	25,517,682	63.8
	P45,461,843	**100.0**	P39,977,693	100.0

As of December 31, 2013 and 2012, information on the concentration of credit as to industry follows (amounts in thousands, except percentages):

	2013		2012	
	Amount	**%**	Amount	%
Transportation, storage and communications	**P10,224,131**	**22.5**	P8,922,936	22.3
Real estate, renting and business services	**9,344,336**	**20.6**	7,953,990	19.9
Other community, social and personal activities	**6,865,168**	**15.1**	8,276,310	20.7
Construction	**6,506,798**	**14.3**	5,175,490	13.0
Wholesale and retail trade	**3,602,942**	**7.9**	2,239,124	5.6
Financial intermediaries	**3,305,699**	**7.3**	320,011	0.8
Electricity	**3,209,521**	**7.1**	92,653	0.2
Manufacturing (various industries)	**1,926,094**	**4.2**	6,307,228	15.8
Agriculture	**378,414**	**0.8**	337,919	0.9
Others	**98,740**	**0.2**	352,032	0.9
	P45,461,843	**100.0**	P39,977,693	100.0

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

Current banking regulations allow banks with no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those receivables classified as "Loss" in the latest BSP Report of Examination, 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):

	2013	2012
Total NPLs	**P3,903,799**	P4,239,823
Less NPLs fully covered by allowance for credit losses	**-**	-
	P3,903,799	P4,239,823

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 three (3) or more installments are in arrears.

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

As of December 31, 2013 and 2012, restructured loans amounted to P1.7 billion and P2.6 billion, respectively. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs. As of December 31, 2013 and 2012, restructured receivables from customers considered as NPLs amounted to P1.0 billion and P1.4 billion, respectively.

Interest Income on Loans and Receivables
This account consists of:

	Note	**2013**	2012
Receivable from customers:			
Term loans		**P1,131,971,957**	P894,288,845
Direct advances		**529,400,900**	674,824,173
Bills purchased, import bills and trust receipts		**33,463,369**	54,139,355
Agri-agra loans		**14,954,340**	154,929,624
Others		**395,617,228**	349,889,263
		2,105,407,794	2,128,071,260
Sales contract receivable		**100,096,545**	95,968,416
Unquoted debt securities	*36*	**6,062,262**	25,470,058
		P2,211,566,601	P2,249,509,734

As of December 31, 2013 and 2012, 78.0% and 85.1%, 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 2013 and 2012. Dollar-denominated loans earn annual fixed interest rates ranging from 0.1% to 13.0% in 2013 and from 1.0% to 13.5% in 2012.

Unquoted debt instruments bear fixed interest rates per annum ranging from 0.0% to 2.5% in 2013 and 2012.

Sales contracts receivable bear fixed interest rates ranging from 2.7% to 19.0% in 2013 and 2012.

11. Investment in Associate

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

	Note	**2013**	2012
Acquisition cost (24.25%-owned)		**P71,740,650**	P71,740,650
Accumulated equity in net loss and OCI:			
Balance at beginning of year		**(11,562,851)**	(16,673,592)
Share in net loss		**(566,369)**	(1,174,721)
Share in OCI		**(853,935)**	633,174
Other adjustments		**(4,197,268)**	5,652,288
Balance at end of year		**(17,180,423)**	(11,562,851)
Allowance for impairment loss	*16*	**(2,877,886)**	(2,877,886)
		P51,682,341	P57,299,913

The following table shows the summarized financial information of BIC:

	2013**	2012*
Assets	**P215,270,888**	P219,989,161
Liabilities	**(2,242,708)**	(3,785,478)
Net assets	**213,028,180**	216,203,683
Revenues	**9,232,385**	13,302,539
Net loss for the year	**2,335,542**	22,152,530

* *Based on 2012 audited financial statements*
***Based on 2013 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. In compliance with the order from SEC, 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. BIC's primary purpose is now to engage in the business of providing business consultancy services pursuant to the SEC's order to delete its capacity as an investment house. As of December 31, 2013, the decision on petition for amendment of the Articles of Incorporation of BIC is still pending with the SEC.

As of December 31, 2013 and 2012, BIC's outstanding capital amounted to P213.0 million and P216.2 million, respectively.

12. Property and Equipment

The movements in property and equipment follow:

	December 31, 2013		
At Cost	**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**

		December 31, 2013		
At Appraised Values	***Note***	**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**

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

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

In 2013 and 2012, gains on sale of property and equipment amounted to P24.5 million and P6.4 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 active market prices, adjusted for any difference in the nature, location or condition of the specific property. Land and buildings were last appraised in 2013. Management assessed that there has been no significant changes in the value of said properties since the last appraisal. The fair value measurement for land and buildings has been categorized as a Level 2 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 P32.6 million and P38.7 million, as of December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012, the cost of fully depreciated property and equipment still in use amounted to P690.0 million and P716.8 million, respectively.

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

	December 31, 2013			December 31, 2012		
	Land	**Buildings**	**Total**	Land	Buildings	Total
Cost	**P41,570,352**	**P1,290,295,463**	**P1,331,865,815**	P91,570,746	P1,298,953,099	P1,390,523,845
Accumulated depreciation	**-**	**(358,847,086)**	**(358,847,086)**	-	(315,062,592)	(315,062,592)
	P41,570,352	**P931,448,377**	**P973,018,729**	P91,570,746	P983,890,507	P1,075,461,253

13. Investment Properties

The movements in investment properties follow:

		December 31, 2013		
	Note	**Land**	**Buildings**	**Total**
Cost				
Balance at January 1		**P2,372,347,801**	**P711,564,882**	**P3,083,912,683**
Additions		**102,536,064**	**64,918,964**	**167,455,028**
Reclassification		**(35,125,584)**	**(33,082,655)**	**(68,208,239)**
Disposals and others		**(143,084,812)**	**(52,095,577)**	**(195,180,389)**
Balance at December 31		**2,296,673,469**	**691,305,614**	**2,987,979,083**
Accumulated Depreciation				
Balance at January 1		**-**	**111,878,625**	**111,878,625**
Depreciation		**-**	**21,997,179**	**21,997,179**
Disposals and others		**-**	**(13,736,382)**	**(13,736,382)**
Balance at December 31		**-**	**120,139,422**	**120,139,422**
Allowance for impairment losses	*16*	**(255,979,604)**	**(34,914,682)**	**(290,894,286)**
Net Book Value at December 31		**P2,040,693,865**	**P536,251,510**	**P2,576,945,375**

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

As of December 31, 2013 and 2012, the aggregate fair value of the Bank's investment properties amounted to P4.0 billion and P4.4 billion, respectively, or an increment of P1.4 billion and P1.7 billion over their net carrying value as of December 31, 2013 and 2012, respectively.

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

	2013	2012
Gain on assets sold	**P109,021,157**	P50,398,583
Gain on foreclosure	**34,381,616**	56,088,056
	P143,402,773	P106,486,639

As discussed in Notes 18 and 34 to the financial statements, the Bank entered into dacion en pago with mandatory buy-back agreement with the BSP. Under PFRS, the transaction was accounted for as a borrowing from the BSP collateralized by certain investment properties and property and equipment. As of December 31, 2011, the outstanding liability to BSP amounted to P0.9 billion, included under "Bills payable" account in the statement of financial position. This was fully settled in 2012.

Rental income on investment properties (included in "Miscellaneous income" account in the statements of income) in 2013 and 2012 amounted to P2.7 million and P3.8 million, respectively.

Direct operating expenses on investment properties that generated rental income (included under "Litigation and acquired assets" in "Other expenses - miscellaneous" account in the statements of income) in 2013 and 2012 amounted to P4.4 million and P0.5 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 in the statements of income) in 2013 and 2012 amounted to P100.7 million and P109.7 million, respectively.

14. Non-current Assets Held for Sale

As of December 31, 2013 and 2012, non-current assets were stated at carrying amount and comprised of the following:

	2013			2012		
	Land	**Buildings**	**Total**	Land	Buildings	Total
Balance at beginning of year	**P224,366,372**	**P101,463,765**	**P325,830,137**	P301,319,250	P167,442,945	P468,762,195
Reclassifications	**39,843,700**	**21,224,443**	**61,068,143**	150,162,771	38,037,561	188,200,332
Disposals	**(123,745,167)**	**(21,410,726)**	**(145,155,893)**	(227,115,649)	(104,016,741)	(331,132,390)
Balance at end of year	**P140,464,905**	**P101,277,482**	**P241,742,387**	P224,366,372	P101,463,765	P325,830,137

In 2013 and 2012, gains on sale of non-current assets held for sale amounted to P77.9 million and P14.0 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	**2013**	2012 (As restated - see Note 3)
Deferred charges - loss on sale to SPV - gross		**P1,924,629,922**	P1,924,629,922
Withholding tax on PEACe bonds		**580,336,854**	580,336,854
Software costs*		**524,042,315**	471,838,480
Miscellaneous assets	*22, 34*	**5,274,169,307**	5,244,256,611
		8,303,178,398	8,221,061,867
Less allowance for impairment and credit losses	*16*	**3,594,811,869**	3,027,392,408
		P4,708,366,529	P5,193,669,459

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

Deferred Charges - Loss on Sale to SPV

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

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

Amortization of deferred charges charged against profit or loss amounted to P267.1 million and P224.1 million in 2013 and 2012, respectively.

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

Withholding Tax on PEACe Bonds

This account represents capitalized taxes withheld by the Bureau of Treasury (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 thirty (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 of December 31, 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 of December 31, 2013 and 2012, allowance for impairment losses on PEACe bonds amounted to P290.2 million and P118.7 million, respectively.

Software Costs
Movements in software costs follow:

	2013	2012
Cost		
Balance at January 1	**P583,027,814**	P448,780,391
Additions	**186,516,645**	216,663,039
Write-offs and others	**(130,889,500)**	(82,415,616)
Balance at end of year	**638,654,959**	583,027,814
Accumulated Amortization		
Balance at January 1	**111,189,334**	102,297,168
Amortization for the year	**71,627,308**	43,351,706
Write-offs and others	**(68,203,998)**	(34,459,540)
Balance at end of year	**114,612,644**	111,189,334
Less allowance for impairment losses	**40,923,010**	85,318,010
Net Book Value	**P483,119,305**	P386,520,470

Miscellaneous Assets
This account includes NPAs amounting to P4.5 billion as of December 31, 2013 and 2012, which were assumed by the Bank in connection with the PSA entered into by the Bank with TRB in 2002 (see Note 34). As of December 31, 2013 and 2012, allowance for impairment losses on these NPAs amounted to P1.8 billion and P1.7 billion, respectively. PFRS, however, requires that the required allowance for impairment losses on the NPAs amounting to P3.1 billion at acquisition date, be charged in full in the period incurred (2002). The Bank annually recognizes provisions for impairment losses to gradually meet the foregoing provisioning requirement based on the net yield earned by the Bank from the FAA with PDIC 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 (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, 2013					
	AFS Securities (see Note 9)	**Loans and Receivables** (see Note 10)	**Property and Equipment** (see Note 12)	**Investment Properties** (see Note 13)	**Other Assets*** (see Notes 11 and 15)	**Total**
Balance at beginning of year	**P345,297**	**P3,968,441**	**P23,486**	**P294,129**	**P3,030,270**	**P7,661,623**
Provisions (reversals) charged against operations	**352,343**	**(275,813)**	**(886)**	**11,305**	**613,193**	**700,142**
Reclassifications	**-**	**239**	**-**	**-**	**(239)**	**-**
Reversals	**-**	**(19,164)**	**(12,601)**	**(14,540)**	**(45,552)**	**(91,857)**
Others **	**278**	**85,836**	**-**	**-**	**18**	**86,132**
Balance at end of year	**P697,918**	**P3,759,539**	**P9,999**	**P290,894**	**P3,597,690**	**P8,356,040**

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

	December 31, 2012					
	AFS Securities (see Note 9)	Loans and Receivables (see Note 10)	Property and Equipment (see Note 12)	Investment Properties (see Note 13)	Other Assets* (see Notes 11 and 15)	Total
Balance at beginning of year, as restated	P316,244	P4,129,620	P23,486	P233,158	P2,425,638	P7,128,146
Provisions charged against operations	-	286,805	-	67,075	382,601	736,481
Reclassifications	72,363	(321,909)	-	27,500	222,046	-
Reversals	(40,603)	(73,183)	-	(33,604)	-	(147,390)
Others **	(2,707)	(52,892)	-	-	(15)	(55,614)
Balance at end of year	P345,297	P3,968,441	P23,486	P294,129	P3,030,270	P7,661,623

**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, 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)		**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							**P5,347,227,387**

**Others include foreign exchange differential*

		December 31, 2012					
	Note	Term Loans	Direct Advances	Agri-agra Loans	Bills Purchased, Import Bills, and Trust Receipts	Others	Total
Balance at beginning of year, as restated		P1,180,357,383	P803,364,325	P294,836,373	P122,238,423	P1,728,823,432	P4,129,619,936
Provisions		36,296,518	16,067,538	6,350,833	114,649,089	113,440,693	286,804,671
Reclassifications		51,035,920	(274,624,460)	(181,091,734)	(157,433,442)	240,205,431	(321,908,285)
Reversals		(50,585,355)	(22,597,913)	-	-	-	(73,183,268)
Others*		(36,559,788)	(16,332,370)	-	-	-	(52,892,158)
Balance at end of year		P1,180,544,678	P505,877,120	P120,095,472	P79,454,070	P2,082,469,556	P3,968,440,896
Total Impairment Allowance	*10*						
Individual impairment							P3,534,541,199
Collective impairment							433,899,697
							P3,968,440,896
Gross amount of loans and receivables, individually determined to be impaired							P6,189,848,309

**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, 2013			December 31, 2012		
	Individual Impairment	**Collective Impairment**	**Total**	Individual Impairment	Collective Impairment	Total
Balance at beginning of year, as restated	**P3,534,541,199**	**P433,899,697**	**P3,968,440,896**	P3,752,137,005	P377,482,931	P4,129,619,936
Provisions	**(244,127,444)**	**(31,685,893)**	**(275,813,337)**	412,144,022	(125,339,351)	286,804,671
Reclassifications	**10,239,492**	**(10,000,000)**	**239,492**	(503,664,402)	181,756,117	(321,908,285)
Reversals	**(19,164,028)**	**-**	**(19,164,028)**	(73,183,268)	-	(73,183,268)
Others*	**85,836,273**	**-**	**85,836,273**	(52,892,158)	-	(52,892,158)
Balance at end of year	**P3,367,325,492**	**P392,213,804**	**P3,759,539,296**	P3,534,541,199	P433,899,697	P3,968,440,896

**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;
- Government securities 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 (RDA) facility beginning April 6, 2012; and
- Deposits maintained with the BSP in compliance with the reserve requirement no longer bear interest.

As of December 31, 2013 and 2012, the Bank is in compliance with such reserve requirements.

Due from BSP-DDA amounting to P15.5 billion and P9.2 billion as of December 31, 2013 and 2012, respectively, is available for meeting these reserve requirements as reported to the BSP.

In 2013 and 2012, interest rates earned on Due from BSP-Special Deposit Accounts averaged 2.2% and 3.7%, respectively.

Interest expense on deposit liabilities follows:

	2013	2012
Demand	**P1,903**	P265,225
Savings	**500,788,539**	542,073,030
Time	**381,662,003**	483,578,329
	P882,452,445	P1,025,916,584

Peso-denominated deposits are subject to annual interest rates ranging from 0.1% to 6.5% and from 0.0% to 7.8% in 2013 and 2012, respectively. Foreign currency-denominated deposits are subject to annual interest rates ranging from 0.1% to 2.5% in 2013 and from 0.0% to 3.7% in 2012.

18. Bills Payable

This account consists of borrowings from:

	Note	2013	2012
Bills payable:			
Banks and other financial intermediaries	*31*	**P270,010,168**	P249,665,895
PDIC	*9, 20, 34*	**-**	698,667,860
Rediscounting facility		**1,277,708**	485,224,462
		P271,287,876	P1,433,558,217

In June 2012, the Bank fully settled its financial liability to BSP, which was a noninterest-bearing emergency loan with face value amounting to P1.7 billion. This had been earlier assumed by the Bank as part of the PSA with TRB. The emergency loan is considered as a government grant as defined under PAS 20 (see Notes 20 and 34). The emergency loan is collateralized by real estate properties under a dacion en pago arrangement with the BSP (see Note 13). The Bank settled the emergency loan to BSP through cash settlement and permanent transfer of the dacioned properties recognizing a net loss of P23.7 million.

PDIC

This represents the loan granted by the PDIC to the Bank pursuant to the FAA discussed in Note 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 government securities acquired using the proceeds of the PDIC loan which was classified as AFS securities and previously from HTM investments as of December 31, 2010 and was reclassified to AFS securities in 2011 (see Note 9). The loan 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.

<u>2013 Developments</u>
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

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 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.

As of December 31, 2013, Management believes the Bank is in compliance of the above mentioned conditions as required by the BSP for prudential reporting purposes.

Rediscounting Facility
As of December 31, 2012, this account mainly consists of the rediscounting facility availed by the Bank from another local bank in 2009. This was collateralized by certain receivables from customers amounting to P483.7 million. The bills payable and related receivables from customers were both fully settled in 2013.

Interest Expense
Peso-denominated bills payable are subject to annual interest rates ranging from 3.0% to 12.0% in 2013 and 2012. Foreign currency-denominated bills payable are subject to annual interest rates ranging from 0.4% to 1.0% in 2013 and from 0.8% to 1.1% in 2012.

Interest expense on bills payable amounted to P52.3 million and P99.1 million in 2013 and 2012, respectively.

19. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Note	**2013**	2012
Accrued interest payable:			
Deposit liabilities	*17*	**P113,383,256**	P105,370,284
Bills payable	*18*	**329,016**	30,017,608
		113,712,272	135,387,892
Accrued taxes payable		**326,533,128**	251,267,275
Accrued other employee and other benefits		**109,261,973**	55,104,855
Accrued insurance		**94,985,534**	80,364,149
Accrued lease liability		**77,200,661**	89,334,562
Accrued utilities expense		**13,643,000**	16,367,583
Other expenses		**84,954,602**	130,839,412
		P820,291,170	P758,665,728

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	**2013**	2012 (As restated - see Note 3)
Accounts payable		**P682,220,473**	P459,889,410
Due to preferred shareholders	*22*	**256,058,334**	342,639,172
Retirement liability		**134,003,689**	124,195,533
Withholding tax payable		**51,315,538**	42,892,489
Due to Treasurer of the Philippines		**10,924,033**	4,684,202
Unearned income	*18, 34*	**-**	1,079,332,140
Miscellaneous	*10*	**1,607,198,427**	4,641,081,698
		P2,741,720,494	P6,694,714,644

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

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

21. Maturity Profile of Assets and Liabilities

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

		2013			2012		
	Note	**Less than 12 Months**	**Over 12 Months**	**Total**	Less than 12 Months	Over 12 Months	Total
Financial Assets - gross							
COCI		**P1,671,991**	**P -**	**P1,671,991**	P1,332,510	P -	P1,332,510
Due from BSP	*17*	**30,317,427**	**-**	**30,317,427**	16,601,524	-	16,601,524
Due from other banks		**3,873,689**	**-**	**3,873,689**	2,788,806	-	2,788,806
Interbank loans receivable and SPURA	*7*	**2,362,692**	**-**	**2,362,692**	737,114	-	737,114
Financial assets at FVPL:	*8*						
Government securities held-for-trading		**413,295**	**-**	**413,295**	1,029,732	-	1,029,732
Derivative assets		**2,957**	**22,198**	**25,155**	-	72,632	72,632
Private Debt Securities		**-**	**1,437**	**1,437**	-	1,403	1,403
AFS investments-gross:	*9*						
Quoted government securities		**425,329**	**22,032,260**	**22,457,589**	88,642	14,172,294	14,260,936
Quoted other debt securities		**-**	**1,698,424**	**1,698,424**	-	1,774,048	1,774,048
Unquoted other debt securities		**1,470,102**	**1,257,116**	**2,727,218**	-	3,991,349	3,991,349
Quoted equity securities		**-**	**146,738**	**146,738**	-	146,737	146,737
Unquoted equity securities		**-**	**343,300**	**343,300**	-	340,917	340,917
Loans and receivables - gross:	*10*						
Receivable from customers:							
Term Loans		**14,863,907**	**24,091,932**	**38,955,839**	1,841,709	20,298,201	P22,139,910
Direct Advances		**824,443**	**8,152**	**832,595**	10,084,701	378	10,085,079
Bills purchased, import bills and trust receipts		**1,925,235**	**-**	**1,925,235**	4,886,505	-	4,886,505
Agri-agra loans		**328,827**	**8,751**	**337,578**	303,000	236,735	539,735
Others		**341,235**	**3,069,361**	**3,410,596**	333,931	1,992,532	2,326,463
Sales contracts receivable		**109,271**	**1,163,670**	**1,272,941**	71,403	1,350,756	1,422,159
Unquoted debt securities		**538,338**	**823,214**	**1,361,552**	276,966	1,122,257	1,399,223
Accrued interest receivable		**939,382**	**-**	**939,382**	914,229	-	914,229
Accounts receivable		**851,245**	**-**	**851,245**	757,033	-	757,033
RCOCI		**4,595**	**-**	**4,595**	6,327	-	6,327
		61,263,960	**54,666,553**	**115,930,513**	42,054,132	45,500,239	87,554,371
Nonfinancial Assets - gross							
Investment in associate	*11*	**-**	**71,741**	**71,741**	-	71,741	71,741
Property and equipment	*12*	**-**	**3,716,692**	**3,716,692**	-	3,765,716	3,765,716
Investment properties	*13*	**-**	**2,987,979**	**2,987,979**	-	3,083,913	3,083,913
Non-current assets held for sale	*14*	**241,742**	**-**	**241,742**	325,830	-	325,830
Deferred tax assets - net	*30*	**-**	**526,926**	**526,926**	-	-	-
Other assets	*15*	**-**	**8,417,791**	**8,417,791**	-	8,332,251	8,332,251
		241,742	**15,721,129**	**15,962,871**	325,830	15,253,621	15,579,451
		P61,505,702	**P70,387,682**	**131,893,384**	P42,379,962	P60,753,860	103,133,822
Less:							
Allowance for impairment and credit losses	*16*			**8,356,040**			7,661,623
Accumulated equity in net loss				**17,180**			11,563
Accumulated depreciation and amortization	*12, 13, 15*			**2,254,013**			2,130,103
Unearned interest	*10*			**128,864**			189,244
Total				**P121,137,287**			P93,141,289

	2013			2012		
	Less than 12 Months	Over 12 Months	Total	Less than 12 Months	Over 12 Months	Total
Financial Liabilities						
Deposit liabilities						
Demand	P20,376,583	P -	P20,376,583	P15,390,172	P -	P15,390,172
Savings	60,997,383	-	60,997,383	31,232,895	-	31,232,895
Time	16,325,891	2,590,690	18,916,581	16,123,376	3,146,242	19,269,618
Financial liabilities at FVPL	675	10,205	10,880	-	47,535	47,535
Bills payable	270,010	1,278	271,288	26	1,433,532	1,433,558
Manager's checks and acceptances payable	305,412	-	305,412	371,966	-	371,966
Accrued interest and other expenses	307,295	-	307,295	362,959	-	362,959
Other liabilities	2,434,347	256,058	2,690,405	5,229,851	342,639	5,572,490
	101,017,596	2,858,231	103,875,827	68,711,245	4,969,948	73,681,193
Nonfinancial Liabilities						
Accrued taxes and other expense payable	512,996	-	512,996	395,706	-	395,706
Other liabilities	51,316	-	51,316	42,892	1,079,333	1,122,225
	564,312	-	564,312	438,598	1,079,333	1,517,931
	P101,581,908	P2,858,231	P104,440,139	P69,149,843	P6,049,281	P75,199,124

22. Capital

As of December 31, 2013 and 2012, the Bank has 112,241,112 common shares issued and subscribed and has no outstanding preferred shares. However, the Bank has outstanding liability for the unpaid portion of the redemption price of preferred shares amounting to P256.1 million and P342.6 million as of December 31, 2013 and 2012, respectively, which is recorded as "Due to preferred shareholders" account under "Other liabilities" in Note 20 to the financial statements. As of December 31, 2013 and 2012, the related sinking fund which is recorded as "Miscellaneous assets" account amounting to P256.1 million and P342.6 million, respectively, has been set up to fund the eventual settlement of this liability (see Note 15).

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

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

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

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

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

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

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

Capital Management

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

The Bank has complied in full with regulatory capital requirements as of December 31, 2013 and 2012, based on the CAR reports submitted to the BSP which provided that the reported adjusted qualifying capital of P15.5 billion and P15.7 billion, respectively, exceeded the required minimum regulatory capital of P2.4 billion as determined by the Bank. As of December 31, 2013 and 2012, based on the CAR reports submitted to BSP, the Bank's CAR of 22.9% and 22.3%, respectively, exceeded the minimum 10.0% requirement as computed and monitored using the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the BSP effective July 1, 2007, through BSP Circular 538, based on the Basel II framework covering market, credit and operational risks.

The breakdown of the Bank's risk-weighted assets as of December 31, 2013 and 2012 as reported to the BSP follows (amounts in thousands):

	2013	2012
Credit risk-weighted assets	**P59,016,065**	P57,705,036
Market-risk weighted assets	**1,838,657**	5,202,477
Operational risk-weighted assets	**6,860,118**	7,364,796
	P67,714,840	P70,272,309

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%. The Bank is also required to maintain a minimum Tier 1 capital ratio of 6.0% (in millions).

	2013	2012
Tier 1 capital	**P15,406**	P15,560
Tier 2 capital	**112**	125
Total qualifying capital	**15,518**	15,685
Risk-weighted assets	**P67,715**	P70,272
Tier 1 capital ratio	**22.8%**	22.1%
Total capital ratio	**22.9%**	22.3%

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

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

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

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

For items a, b and d, the recognition of the Bank is based on the accounting treatment approved by BSP (see Notes 10, 15, 16 and 34). For item c, the accounting treatment is based on the provisions of the SPV law.

BASEL III

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

Financial Performance

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

	2013	2012
Return on average equity (ROE)	**4.0%**	1.5%
Return on average assets (ROA)	**0.6%**	0.3%
Net interest margin on average earning assets	**3.0%**	3.0%

As discussed in Notes 15, 16 and 34 to the financial statements, had each of the departures from PFRS been adjusted in the books of the Bank, the ROE, ROA and net interest margin on average earning assets would have been reduced proportionately by the effects of such adjustments required to conform to PFRS.

23. Surplus Reserves

	2013	2012
Reserve for trust business	**P77,798,908**	P71,741,182
Reserve for self-insurance	**60,000,000**	60,000,000
	P137,798,908	P131,741,182

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	2013	2012
Financial assets at FVPL:			
Government securities held for trading		**P51,407,978**	P76,165,371
Quoted other debt securities		**96,183**	351,970
AFS securities:			
Quoted government securities		**985,120,072**	812,780,704
Quoted other debt securities		**92,683,875**	82,985,609
Unquoted other debt securities	*9, 36*	**188,052,169**	186,420,253
		P1,317,360,277	P1,158,703,907

Foreign currency-denominated financial assets at FVPL bear EIRs ranging from 2.8% to 9.9% in 2013 and from 1.6% to 9.9% in 2012. Peso-denominated financial assets at FVPL bear EIRs ranging from 1.6% to 8.1% in 2013 and from 4.8% to 9.1% in 2012.

Foreign currency-denominated AFS securities bear EIRs ranging from 1.0 to 8.4% in 2013 and from 0.1% to 8.4% in 2012. Peso-denominated AFS securities bear EIRs ranging from 2.2% to 14.5% in 2013 and from 2.4% to 14.5% in 2012.

25. Service Charges, Fees and Commissions

This account consists of:

	2013	2012
Service charges	**P164,100,050**	P138,780,408
Penalty charges	**111,452,699**	77,259,381
Commitment and other loan-related charges	**60,415,224**	-
Trust income	**43,607,931**	60,380,972
Letters of credit fees	**5,299,478**	6,836,090
Acceptance fees	**812,162**	1,289,644
Others	**17,062,344**	27,236,234
	P402,749,888	P311,782,729

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	**2013**	2012
Financial assets and liabilities at FVPL:	*8*		
Debt securities			
Realized		**P176,474,916**	(P3,176,793)
Unrealized		**(6,457,622)**	(5,151,980)
Derivatives			
Unrealized	*36*	**(12,011,228)**	86,351,040
AFS securities	*9*	**1,699,976,447**	1,167,684,232
		P1,857,982,513	P1,245,706,499

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, 2013. Valuations are performed on an annual basis.

As of December 31, 2013 and 2012, the principal actuarial assumptions used in determining retirement benefits liability for the Bank's retirement plan are shown below:

	2013	2012
Average working life	**13.0**	13.0
Discount rate	**5.4%**	4.9%
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 "remeasurement gains (losses) on retirement plan" follow:

	2013	2012 (As restated - see Note 3)
Components of retirement benefit liability recorded in profit or loss		
Current service cost	**P77,610,810**	P57,532,652
Net interest expense:		
Interest expense	**25,958,235**	30,751,671
Interest income	**(19,872,653)**	(25,138,218)
	6,085,582	5,613,453
Past service cost	**69,531,613**	-
	153,228,005	63,146,105
Components of retirement benefit liability recorded in OCI		
Remeasurement (gain) loss on defined benefits obligation	**(35,955,437)**	80,971,942
Remeasurement loss on plan assets	**5,118,670**	6,488,708
	(30,836,767)	87,460,650
Total components of retirement liability	**P122,391,238**	P150,606,755

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

	2013	2012 (As restated - see Note 3)
Present value of defined benefits obligation	**P627,265,950**	P529,759,889
Fair value of plan assets	**(493,262,261)**	(405,564,356)
	P134,003,689	P124,195,533

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

	2013	2012 (As restated - see Note 3)
Balance at beginning of year	**P529,759,889**	P427,106,548
Current service cost	**77,610,810**	57,532,652
Interest expense	**25,958,235**	30,751,671
Past service cost	**69,531,613**	-
Benefits paid	**(39,639,160)**	(66,602,924)
Remeasurement (gains) losses on obligation arising from:		
Change in financial assumptions	**(39,692,335)**	82,079,950
Change in demographic assumptions	**1,261,213**	(1,108,008)
Experience adjustment	**2,475,685**	-
Balance at end of year	**P627,265,950**	P529,759,889

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

	Note	2013	2012 (As restated - see Note 3)
Balance at beginning of year		**P405,564,356**	P349,141,911
Interest income		**19,872,653**	25,138,218
Contribution paid by the Bank	*33*	**112,583,082**	104,375,859
Benefits paid	*33*	**(39,639,160)**	(66,602,924)
Remeasurement loss on plan assets		**(5,118,670)**	(6,488,708)
Balance at end of year		**P493,262,261**	P405,564,356

The actual return on plan assets amounted to P14.8 million and P18.6 million in 2013 and 2012, respectively.

The Bank expects to contribute P138.8 million to its defined benefits retirement plan in 2014.

The major categories of plan assets, at carrying values follow:

	2013	2012
AFS Securities:		
Government and other debt securities	**P270,912,936**	P215,698,405
Quoted equity securities	**542,016**	514,804
Unquoted equity securities	**10,079,593**	11,574,543
Cash and other assets	**212,329,335**	179,511,559
Total Plan Assets	**P493,863,880**	P407,299,311

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	P590,413,415	P667,652,681	P663,858,015	P593,368,083
Fair value of plan assets	493,262,261	493,262,261	493,262,261	493,262,261
Net retirement liability	P97,151,154	P174,390,420	P170,595,754	P100,105,822

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 of December 31, 2013 and 2012.

28. Lease Contracts

Bank as Lessee

The Bank leases the premises occupied by most of its branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable upon mutual agreement between the Bank and the lessors. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.0% to 15.0%. Rent expense charged against current operations (included under "Rent and utilities" account in the statements of income) amounted to P319.7 million and P304.6 million in 2013 and 2012, respectively.

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

	2013	2012
Within one year	**P201.9**	P160.8
After one year but not more than five years	**502.9**	317.1
After five years	**182.0**	139.3

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 5 years. As of December 31, 2013 and 2012, there is no contingent rental income. Rent income of the Bank related to these property leases amounting to P9.3 million and P15.8 million in 2013 and 2012, respectively, are shown under "Miscellaneous income" account in the statements of income.

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

	2013	2012
Within one year	**P5.1**	P1.9
After one year but not more than five years	**19.9**	0.1

29. Miscellaneous Expenses

	Note	**2013**	2012
Entertainment, amusement and recreation	*30*	**P152,414,320**	P147,339,914
Litigation and acquired assets	*13*	**105,159,104**	110,184,786
Bank charges		**90,729,274**	27,636,249
Communications		**56,646,770**	65,098,495
Marketing		**56,405,410**	73,596,876
Messengerial services		**51,892,367**	54,196,771
Supervision and examination fee		**41,639,508**	31,849,508
Forms and supplies		**30,094,706**	35,888,630
Transportation and travel		**24,727,864**	32,725,448
Others		**118,253,427**	364,029,190
		P727,962,750	P942,545,867

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 government securities and other deposit substitutes.

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

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

In addition, Revenue Regulation (RR) No. 10-2002 provides for the ceiling on the amount of entertainment, amusement and representation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. Nondeductible EAR expenses amounted to P142.6 million in 2013 and P137.4 million in 2012. 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 (benefit) expense consists of:

	2013	2012
Current:		
Final	**P253,621,401**	P178,504,524
MCIT	**40,433,629**	22,678,769
	294,055,030	201,183,293
Deferred	**(41, 849,549)**	(381,687,502)
	P252,205,481	(P180,504,209)

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:

	2013	2012
Income before income tax	**P940,062,849**	P91,348,360
Income tax at statutory rate	**P282,018,855**	P27,404,508
Additions to (reductions in) income taxes resulting from the tax effects of:		
Nondeductible expenses	**806,088,259**	301,664,570
Nontaxable income	**(608,806,224)**	(3,376,842)
Changes in unrecognized deferred tax assets	**(339,333,276)**	(186,380,605)
FCDU income	**206,730,323**	(239,339,489)
Tax paid income	**(81,271,972)**	(83,968,033)
Others	**(13,220,484)**	3,491,682
Effective income tax	**P252,205,481**	(P180,504,209)

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

	2013		2012	
	Tax Base	**Deferred Tax Asset (Liability)**	Tax Base	Deferred Tax Asset (Liability)
Deferred tax asset recognized in profit or loss:				
NOLCO	**P922,094,349**	**P276,628,305**	P -	P -
Allowance for impairment and credit losses	**603,085,850**	**180,925,755**	1,810,007,904	543,002,372
Accumulated loss on foreclosure	**497,899,183**	**149,369,755**	520,296,730	156,089,019
Retirement liability and past service cost	**164,840,456**	**49,452,137**	-	-
Accumulated depreciation on investment properties	**120,139,422**	**36,041,827**	111,878,625	33,563,587
Accrued rent expense	**72,559,404**	**21,767,821**	69,901,024	20,970,307
Unrealized foreign exchange loss	**-**	**-**	7,794,452	2,338,336
MCIT	**62,934,594**	**62,934,594**	-	-
Other accrued expenses	**184,553,444**	**55,366,033**	196,185,938	58,855,781
	2,628,106,702	**832,486,227**	2,716,064,673	814,819,402

Forward

	2013		2012	
	Tax Base	**Deferred Tax Asset (Liability)**	Tax Base	Deferred Tax Asset (Liability)
Deferred tax liability recognized in profit or loss:				
Unrealized gain on foreclosed properties	**(P716,261,750)**	**(P214,878,525)**	(P750,492,211)	(P225,147,663)
Gain on investment properties sold under installments	**(254,926,667)**	**(76,478,000)**	(302,015,351)	(90,604,605)
Revaluation increment on property	**(46,637,198)**	**(13,991,159)**	(55,299,245)	(16,589,774)
Unrealized foreign exchange gain	**(510,062)**	**(153,019)**	-	-
Valuation gain on derivatives and financial assets carried at FVPL	**(200,000)**	**(60,000)**	-	-
Net unrealized gain on AFS securities	**-**	**-**	(1,608,257,866)	(482,477,360)
	(1,018,535,677)	**(305,560,703)**	(2,716,064,673)	(814,819,402)
Net deferred tax assets	**1,609,571,025**	**526,925,524**	-	-
Less amount recognized in OCI:				
Revaluation increment on property	**(46,637,198)**	**(13,991,159)**	(55,299,245)	(16,589,774)
Net unrealized gain on AFS securities	**-**	**-**	(1,608,257,866)	(482,477,360)
	(46,637,198)	**(13,991,159)**	(1,663,557,111)	(499,067,134)
	P1,656,208,223	**P540,916,683**	P1,663,557,111	P499,067,134

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, 2013	
	Deductible Temporary Differences	**Deferred Tax Assets**
Allowance for impairment and credit losses	**P3,236,579,846**	**P970,973,954**
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	**186,740,085**	**56,022,026**
	P3,798,946,140	**P1,163,473,761**

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

Details of the Bank's RBU NOLCO and MCIT as of December 31, 2013 follow:

NOLCO

Inception Year	Amount	Used	Balance	Expiry Year
2011	P2,091,955,040	(P1,254,038,258)	P837,916,782	2014
2012	421,444,349	-	421,444,349	2015
	P2,513,399,389	(P1,254,038,258)	P1,259,361,131	

MCIT

Inception Year	Amount	Expired	Balance	Expiry Year
2010	P41,079,315	(P41,079,315)	P -	2013
2011	33,985,597	-	33,985,597	2014
2012	22,678,769	-	22,678,769	2015
2013	40,255,825	-	40,255,825	2016
	P137,999,506	(P41,079,315)	P96,920,191	

As of December 31, 2013, the Bank's FCDU MCIT amounted to P0.2 million.

31. Commitments and Contingencies

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

The following is a summary of the Bank's commitments and contingencies at their peso equivalent contractual amounts arising from off-books accounts as of December 31, 2013 and 2012:

	2013	2012
Contingent assets:		
Future/spot exchange bought	**P643,727,500**	P1,183,471,500
Fixed income securities purchased	**1,874,797**	360,334,275
Outward bills for collection	**313,160**	239,141,783
	P645,915,457	P1,782,947,558

	Note	**2013**	2012
Commitments and contingent liabilities:			
Trust department accounts	*32*	**P8,074,884,609**	P34,363,418,799
Future/spot exchange sold		**2,419,527,500**	1,552,932,640
Unused commercial letters of credit		**483,070,106**	225,494,430
Late deposits/payments received		**73,591,048**	166,340,721
Outstanding guarantees		**47,241,417**	21,202,826
Items held for safekeeping/securities held as collateral		**63,114**	3,529,855
Fixed income securities sold		**1,874,797**	-
		P11,100,252,591	P36,332,919,271

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	
	2013	2012	**2013**	2012	**2013**	2012
AFS securities	**P221,862**	P3,459,842	**P221,862**	P3,459,842	**P110,987**	P801,293
Loans and receivables - net	**106,277**	232,165	**106,277**	232,165	**159,023**	147,041
	P328,139	P3,692,007	**P328,139**	P3,692,007	**P270,010**	P948,334

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 P8.1 billion and P34.4 billion as of December 31, 2013 and 2012, respectively.

In compliance with the requirements of current banking regulations relative to the Bank's trust functions, government securities with a face value of P367.6 million and P405.6 million are deposited with BSP in 2013 and 2012, respectively.

33. Related Party Transactions

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

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

Under current banking regulations, the amount of individual loans to DOSRI, of which 70.0% must be secured, should not exceed the amount of their respective unencumbered deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the lower of the Bank's total regulatory capital or 15.0% of the total loan portfolio.

On March 15, 2004, the BSP issued Circular 423 which provides for the amended definition of DOSRI accounts. The following table shows information relating to DOSRI loans:

	2013	2012
Total outstanding DOSRI loans	**P1,106,238,611**	P1,107,003,592
Percent of DOSRI loans to total loans	**2.4%**	2.8%
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:

	2013	2012
Deposit liabilities	**P2,286,081,923**	P715,514,183
Interest expense	**1,977,485**	1,676,447

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 twenty-five percent (25%) of the Bank's net worth provided those are made for the purpose of undertaking infrastructure and/or development projects under the Public-Private Partnership Program (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 twenty-five percent (25%) of the Bank's net worth and that it shall only be allowed for a period of three (3) years from the effectivity of the Circular. BSP Circular No. 700 is effective on December 21, 2010.

On January 9, 2013, BSP Circular No. 779 further amends 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 six (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 of the end of the six (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 fifteen percent (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 three (3) years from March 3, 2011 or, until March 3, 2014. Said additional loans, credit accommodations and guarantees outstanding as of 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 (in thousands):

	As of 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
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 with no impairment
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	**644,643**		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

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	As of and For the Year Ended December 31, 2012		
Affiliates			
Unquoted AFS Securities		P17,182	12% equity interest in BANGE
Receivable from customers		11,086,548	Short-term lending with interest rates ranging from 4.00% to 6.00% with maturity terms from 29 days to 50 days; Term loans with maturity of more than one year; Unsecured with no impairment
Availments	P82,430,794		Generally similar to terms and conditions above
Settlements	28,074,000		Generally similar to terms and conditions above
Accrued interest receivable		88,832	Interest on receivable from customers
Sales contracts receivable		7,004	With annual interest of 6.3% and term of more than one year
Deposit liabilities		715,514	With annual interest rates ranging from 0.3% to 0.8%
Total deposits	1,796,603,723		Generally similar to terms and conditions above
Total withdrawals	1,266,215,347		Generally similar to terms and conditions above
Accrued interest payable		120	Interest on deposit liabilities
Interest income	266,041		Interest income on receivable from customers and sales contracts receivable
Miscellaneous income	631		Dividend income on Unquoted AFS Securities
Interest expense	1,676		Interest expense on deposit liabilities

Affiliates are other companies owned and controlled by San Miguel Corporation, the Bank's ultimate parent company and BANGE, in which the Bank has equity interest.

The related party transactions shall be settled in cash. There are no provisions for credit losses in 2013 and 2012.

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 P493.3 million and P493.9 million, respectively, in 2013 and P405.6 million and P407.3 million, respectively, in 2012.

Related information on assets/liabilities and income/expense of the funds as of and for the years ended December 31, 2013 and 2012 follows:

	2013	2012
AFS securities:		
Government and other debt securities	**P270,912,936**	P215,698,405
Equity securities	**10,621,609**	12,089,347
Deposits with other banks	**46,403,100**	176,058,029
Deposits with the Bank	**163,265,288**	341,916
Loans and receivables	**2,660,947**	3,111,614
Total Plan Assets	**P493,863,880**	P407,299,311
Trust fee payable	**P601,601**	P254,487
Other liabilities	**18**	18
Total Plan Liabilities	**P601,619**	P254,505

Plan Income	**2013**	2012
Interest income	**P17,808,016**	P20,565,777
Dividend income	**38,653**	30,648
	P17,846,669	P20,596,425

Plan Expense		
Provision (reversal) for probable losses on equity securities	**P1,494,951**	(P192,166)
Trust fees	**1,140,151**	964,710
Other expenses	**4,451**	10,755
	P2,639,553	P783,299

As of December 31, 2013 and 2012, 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 P11.9 million and P10.4 million as of December 31, 2013 and 2012, 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.

As of December 31, 2013 and 2012, Deposits with other banks pertain to Special Deposit Account placements with Union Bank and BSP. As of December 31, 2013 and 2012, loans and receivables include accrued interest on deposit with the Bank amounting to P101,934 and P7, respectively. Interest income on deposit with the Bank amounted to P483,746 and P4,802 as of December 31, 2013 and 2012, 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 Board of Trustees of the fund.

As of December 31, 2013 and 2012, the Bank's contribution to its defined benefits retirement plan amounted to P112.6 million and P104.4 million, respectively (see Note 27). Benefits paid out of the Bank's plan assets amounted to P39.6 million and P66.6million in 2013 and 2012, 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, 2013 and 2012 follows:

	2013	2012
Short-term employee benefits	**P370,717,914**	P323,000,326
Post-employment benefits	**30,397,432**	42,064,424
	P401,115,346	P365,064,750

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 of August 31, 2001. The said assets are inclusive of the banking goodwill of TRB, bank premises, licenses to operate its head office and branches, leasehold rights and patents used in connection with its business or products. In consideration of the sale of identified recorded assets, the Bank assumed identified recorded TRB liabilities including contingent liabilities as listed and referred to in its CSOC as of August 31, 2001. The liabilities assumed do not include the liability for the payment of compensation, retirement pay, separation benefits and any labor benefits whatsoever arising from, incidental to, or connected with employment in, or rendition of employee services to TRB, whether permanent, regular, temporary, casual or contractual and items in litigation, both actual and prospective, against TRB.

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

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

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

Settlement of Liabilities of TRB

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

c. Any gain on sale of the dacion properties within the ten-year holding period, in excess or over the buy-back price, net of any taxes paid related to the sale, shall be shared 70-30 between the Bank and BSP, respectively.

   As approved by the BSP, properties of the Bank and TRB with net book value amounting to P2.3 billion fully settled the liabilities to BSP assumed by the Bank from TRB amounting to P2.4 billion at the time of dacion; the difference amounting to P102.0 million was credited to other deferred credits (ODC) account. Expenses incurred related to the dacion of properties were offset against ODC.

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

FAA

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

a. The PDIC granted the Bank a loan amounting to P1.8 billion (included under Bills Payable) representing the amount of insured deposits of TRB as of June 30, 2001, which should have been paid by PDIC under a closure scenario. The proceeds of the loan were used to purchase a 20-year 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) is being used to offset on a staggered basis against TRB's unbooked valuation reserves on NPAs with a total face value of P4.5 billion, which was approved by the BSP to be booked as "Miscellaneous assets."

   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:

<u>Assumption of NPAs of TRB</u>
In addition to the provisions of FAA and subsequent to the approval by the BSP and PDIC to recognize NPAs of P144.2 million as miscellaneous assets, the Bank negotiated with the BSP and PDIC to include as miscellaneous assets the additional operating losses of TRB amounting to P595.6 million incurred during the transition period of the Bank's assumption of TRB's assets and liabilities. As of December 31, 2002, a portion of the additional operating losses of TRB amounting to P227.2 million was approved by the BSP and PDIC to be included as additional miscellaneous assets. On April 28, 2003, the BSP approved the deferral of operating losses amounting to P596.4 million (instead of P595.6 million which was previously negotiated by the Bank and P227.2 million which was previously approved by the BSP) thereby increasing the TRB-related bookings to miscellaneous assets to P4.5 billion (see Note 15). NPL included under miscellaneous assets comprised TRB's loans amounting to P3.1 billion as of August 31, 2001 which is excluded in the determination of financial ratios, provisioning and computation of CAR based on the agreed term sheet. Also, BSP considered these miscellaneous assets as non-risk assets and are not subject to classification.

The Bank recognized net interest income amounting to P159.3 million and P159.1 million in 2013 and 2012 from the FAA. In accordance with the PSA entered by the Bank and TRB, an amount equivalent to the net interest income of P159.3 million and P159.1 million in 2013 and 2012, respectively, was recognized in profit or loss to increase the allowance for impairment losses on the "Miscellaneous assets" (see Note 15).

35. Notes to Statements of Cash Flows

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

	2013	2012
Noncash investing activities:		
Additions to investment properties in settlement of loans	**P158,027,698**	P272,963,975
Increase in sales contracts receivable from sale of investment properties	**92,324,315**	145,925,795

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 2013, the Bank liquidated several structured notes with face value of $34.0 million (equivalent to P1.4 billion). The related net trading losses on termination of these financial instruments amounted to $9.5 million (equivalent to P421.1 million) are included in "Trading and investment securities gains - net" account in the statements of income (see Note 26).

37. Events After the Reporting Date

On January 10, 2014 and February 10, 2014, the Bank liquidated several structured notes with total face value and carrying value of $71.5 million and $49.3 million, respectively, as of December 31, 2013. Proceeds from the disposal of these financial instruments amounted to $50.3 million, resulting in nil net trading loss in 2014.

38. Reclassification

Certain amounts in the December 31, 2012 financial statements were reclassified to conform to the December 31, 2013 financial statements' presentation.

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

I. Based on RR No. 19-2011

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the BIR issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2013, the Bank reported the following revenues and expenses for income tax purposes (in absolute amounts):

A. Sales/Receipt/Fees

Interest income	**P2,051,404,175**

B. Cost of Services

Interest expense	**P396,552,701**
Salaries, wages and benefits	**265,364,792**
Rental	**154,532,257**
Outside services	**103,166,169**
Depreciation	**101,916,171**
Utilities	**91,339,791**
Communications	**22,244,745**
Materials, supplies and facilities	**16,428,496**
Repairs and maintenance	**9,615,388**
Others	**5,864,075**
	P1,167,024,585

C. Other Income

Service charges, fees and commissions	**P329,789,805**
Trading gains on securities	**295,600,637**
Real estate income	**273,090,812**
Foreign exchange gain or loss	**13,290,839**
Rental income	**9,101,465**
Others	**207,538,083**
	P1,128,411,641

D. Itemized Deductions

Compensation	**P278,408,785**
Taxes other than income tax	**220,534,257**
Real estate expense	**42,194,257**
Fees, commissions and bank charges	**35,068,356**
Amortization of deferred charges	**29,903,256**
Depreciation	**27,335,069**
Equipment expenses	**20,304,245**
Management and other professional fee	**19,925,969**
Travel and business expenses-non customer	**19,196,804**
Marketing	**10,076,401**
Building repairs and maintenance	**8,292,750**
Power, light, water	**6,237,000**
Messengerial and freight	**5,353,603**
Communications	**4,751,547**
Forms and supplies	**3,491,970**
Security services	**3,289,225**
Janitorial services	**1,497,054**
Other expenses	**22,892,425**
	P758,752,973

E. Taxable Income

Taxable income before NOLCO	**P1,254,038,258**
Application of NOLCO	**(1,254,038,258)**
Taxable income	**P -**

II. Based on RR No. 15-2010

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

A. Other Taxes and Licenses

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

Details consist of the following:

	December 31 2013
Gross receipts tax	**P280,034,047**
Documentary stamp tax	**160,574,384**
License and permit fees	**17,579,846**
Real estate taxes	**6,096,668**
Others	**7,441,912**
	P471,726,857

B. Withholding Taxes

Details of withholding taxes for the year follow:

Tax on compensation and benefits	**P219,885,198**
Final withholding taxes	**119,989,239**
Expanded withholding taxes	**45,774,680**
	P385,649,117

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 of December 31, 2013, 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 AND ATM DIRECTORY

Metro Manila

Makati City	11	Branches	13	ATMs
Taguig	1	Branch	5	ATMs
Manila	12	Branches	31	ATMs
Caloocan	2	Branches	7	ATMs
Malabon	2	Branches	3	ATMs
Valenzuela	1	Branch	3	ATMs
Quezon City	15	Branches	54	ATMs
San Juan	1	Branch	2	ATMs
Marikina City	3	Branches	6	ATMs
Pasig	1	Branch	9	ATMs
Mandaluyong City	2	Branches	13	ATMs
Pasay City	2	Branches	8	ATMs
Paranaque City	4	Branches	9	ATMs
Muntinlupa City	1	Branch	5	ATMs
Las Pinas City	1	Branch	7	ATMs

Luzon

Laguna	3	Branches	17	ATMs
Cavite	2	Branches	13	ATMs
Batangas	4	Branches	9	ATMs
Mindoro	1	Branch	1	ATM
Lucena	1	Branch	2	ATMs
Legazpi	1	Branch	2	ATMs
Naga	1	Branch	1	ATM
Palawan	1	Branch	1	ATM
Pampanga	3	Branches	16	ATMs
Zambales	3	Branches	6	ATMs
Pangasinan	3	Branches	9	ATMs
Tarlac	1	Branch	1	ATM
Bataan	1	Branch	3	ATMs
Nueva Ecija	1	Branch	1	ATM
La Union	1	Branch	5	ATMs
Baguio	1	Branch	4	ATMs
Ilocos	3	Branches	5	ATMs
Cagayan	1	Branch	2	ATMs
Bulacan	2	Branches	8	ATMs
Rizal	1	Branch	12	ATMs

Visayas

Roxas City	1	Branch	1	ATM
Aklan	1	Branch	4	ATMs
Iloilo	3	Branches	4	ATMs
Negros Oriental	1	Branch	1	ATMs
Bacolod	2	Branches	9	ATMs
Tagbilaran	1	Branch	2	ATMs
Leyte	1	Branch	2	ATM
Cebu	7	Branches	21	ATMs
Dumaguete	0	Branch	1	ATM
Kabankalan	1	Branch	0	ATM

Mindanao

Agusan Del Norte	1	Branch	4	ATMs
Cagayan De Oro	2	Branches	5	ATMs
Bukidnon	1	Branch	2	ATMs
Gen. Santos	1	Branch	3	ATMs
Davao City	3	Branches	10	ATMs
Zamboanga City	2	Branches	4	ATMs

METRO MANILA

Makati Area

Ayala
G/F IAcademy Building 6764
Ayala Ave., Makati City
(632) 891-3814
(632) 810-0651 (fax)

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

Pasay Road
1006 Cedar Executive Building, A. Arnaiz
Ave., San Lorenzo Village, Makati City
(632) 840-5640 / (632) 840-5660
(632) 576-5035 / (632) 840-5612

Paseo De Roxas
G/F No. 107 Legaspi Towers 200 Paseo
De Roxas St., Legaspi Village,
Makati City
(632) 219-0253 / (632) 817-7572
(632) 815-4279 (telefax)

Pasong Tamo Extension
2295 OPVI Centre, Pasong Tamo
Extension, Makati City
(632) 892-9700 / (632) 219-0271
(632) 817-9300 (fax)

Bel-Air Petron
Bel-Air Petron Square
363 Sen. Gil Puyat Ave.,
Brgy. Bel-Air, Makati City
(632) 898-2309 / (632) 896-7085 (fax)
(632) 219-0279

Dela Costa-Alfaro
G/F No. 100 Don Chua Lamko Building,
H.V. Dela Costa cor. Leviste Sts., Salcedo
Village, Makati City
(632) 840-2789 / (632) 219-0010
(632) 840-2719

Bonifacio Global City
G/F, No. 107 Kensington Place Burgos
Circle, Fort Bonifacio, Taguig City
(632) 856-1707 / (632) 856-1696
(telefax)
(632) 856-1706 / (632) 856-1697

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

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

Makati Avenue - Zuellig
G/F Unit-2, Zuellig Building, Makati Ave.,
cor. Paseo De Roxas & Sta. Potenciana
Sts., Makati City.
(632) 961-7628 / (632) 961-8364
(632) 219-0127 / (632) 625-4871

Jupiter
No. 86 Jupiter St., Brgy. Bel-Air,
Makati City
(632) 828-4397 /
(632) 219-0258 / (632) 869-8812 (fax)

Manila South Area

Alabang
Unit 6, El Molito II Building, Madrigal
Ave., Alabang, Muntinlupa City
(632) 850-8718 / (632) 219-0121
(632) 850-1574 / (632) 850-4935 (fax)

Bicutan
No. 35 Doña Soledad Avenue,
Better Living Subdivision, Parañaque City
(632) 776-4146 / (632) 823-2321 (fax)
(632) 823-2323 / (632) 219-0129 /
(632) 831-2546

Las Piñas
G/F Pelayo Building, Alabang-Zapote
Road, Manuela Subdivision,
Pamplona-III, Las Piñas City
(632) 556-1507 / (632) 556-1506 (fax)
(632) 556-1501 / (632) 556-1500
(632) 219-0128

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

Magallanes
G/F Tritan Plaza Building, Paseo De
Magallanes, Magallanes Village,
Makati City
(632) 854-9611 (telefax)
(632) 851-1424 / (632) 219-0153

B.F. Homes
No. 33 President's Ave.,
Brgy. BF Homes, Paranaque City
(632) 403-8941 (fax) / (632) 219-0149

Sucat
No. 8338 Fortuna-II Building, Dr. A.
Santos Avenue, Sucat, Parañaque City
(632) 820-7747 / (632) 219-0169
(632) 826-8415

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

Dasmariñas, Cavite
Veluz –Frances Plaza Brgy., Aguinaldo
Zone 1-A Highway, Dasmarinas Cavite
Manila line: (632) 529-8129 (telefax)
Cavite lines: (046) 416-2335 (telefax) /
(046) 512-3213

Rosario Cavite
General Trias Drive, Brgy. Poblacion
Rosario, Cavite
(046) 402-2062 / (046) 438-8451
(telefax) (046) 512-3218

Manila Central Area

Dasmarinas-Binondo
G/F No. 304 STP Building, Dasmariñas
Cor. Maquina Street, Binondo, Manila
(632) 247-1473 / (632) 247-1473

Sto. Cristo
Kim Siu Ching Foundation Building,
471-483
Sto. Cristo Street corner Jaboneros St.
Binondo, Manila
(632) 241-4151 / (632) 242-0842
(632) 242-0841 (fax)

Juan Luna
No. 465 MCU Building , Juan Luna St.,
Binondo, Manila
(632) 241-0234 / (632) 241-0407 (fax)

Soler
No. 1004 Reina Regente cor. Soler St.,
Binondo, Manila
(632) 244-7001 (fax) / (632) 244-7003

Tutuban
G/F Units M2-GO21-22 Center Mall II
Tutuban Center, C.M. Recto Ave., Manila
(632) 254-0586 (fax)
(632) 353-0086

Quiapo
No. 609 Sales St., Quiapo, Manila
(632) 733-9326 / (632) 733-9366 (fax)

Caloocan A. Mabini
No. 102 A.Mabini St., Maypajo,
Caloocan City
(632) 287-2344 / (632) 287-4709 (fax)

Grace Park
G/F HGL Building, 554 EDSA cor.
Biglang-Awa St., Caloocan City
(632) 361-5916 / (632) 361-1832
(632) 361-1832 / (632) 361-0931(fax)

Manila West Area

Aduana
G/F FEM-II (Main) Building, A. Soriano
Street, Aduana, Intramuros, Manila
(632) 527-2893 / (632) 526-8959
(632) 527-2947 (fax)
(632) 219-0180

Ermita
No. 1312 A. Mabini St., Ermita, Manila
(632) 254-7549 / (632) 254-7550
(632) 254-7545 / (632) 254-7546
(632) 219-0178 (fax)

Taft Ave.-P. Faura
No. 1344 Don Santiago Building,
Taft Avenue, Ermita, Manila
(632) 524-2303 / (632) 536-4959
(632) 526-6049 (fax)
(632) 219-0199

Port Area
G/F Mary Bachrach Building,
Delgado Street, Port Area (City District)
(632) 527-7986 / (632) 527-7987
(632) 527-7989 / (632) 527-3978 (fax)
(632) 219-0191

Resorts World
G/F Resorts World Complex, Newport
Cybertourism Zone, Pasay City
(632) 551-3521 / (632) 239-5860
(632) 239-5848 / (632) 551-3520
(632) 521-9134 (fax)
(632) 219-0197

Taft Ave.
G/F No. 2270, Endriga Building, Taft
Avenue, Malate, Manila
(632) 523-2297 / (632) 521-9130
(632) 219-0194

United Nations
429 Victoria Building,
United Nations Ave., Ermita, Manila
(632) 526-0590 / (632) 219-0226
(632) 521-8663 (fax)

Roxas Blvd.
G/F Kanlaon Towers, Roxas Boulevard,
Pasay City
(632) 219-0186 / (632) 851-2680
(632) 854-4071 (fax)

Quezon City Central Area

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

Del Monte
Bank of Commerce Building, Del Monte
Ave., cor. D. Tuazon St. Quezon City
(632) 410-8025 / (632) 219-3786
(632) 743-2541(fax)

Visayas Ave.
No. 43 Visayas Ave. Brgy. Vasra,
Quezon City
(632) 426-4854 / (632) 426-4732
(632) 219-0155

West Ave. (Delta)
No. 11 West Ave. cor.Zamboanga St.
Quezon City
(632) 374-5544 / (632) 374-5548
(632) 219-0168

West Triangle
No. 1451 Quezon Ave. cor. Examiner St.,
Brgy. Nayon Kaunlaran, Quezon City
(632) 925-1209 / (632) 219-0160
(632) 927-4063 (fax)

Broadcast City
Capitol Hills, Diliman, Quezon City
(632) 932-4628 / (632) 219-0188
(632) 931-4969 (fax)

Commonwealth
Lot 1, Block 1, Upper Ground Floor,
DEMA Building, Commonwealth Aves.,
Capitol State-II, Quezon City
(632) 952-7990 / (632) 216-7636
(632) 952-7989

Cubao
Unit 1, G/F Harvester Corporate Center,
P. Tuazon cor. 7th & 8th Aves., Brgy.
Socorro, Cubao, Quezon City
(632) 911-2486 / (632) 219-0202
(632) 911-2485 (fax)

Katipunan Petron
Petron Katipunan Complex, Katipunan
Ave., corner Mangyan Road, La Vista,
Quezon City
(632) 921-4020 / (632) 219-0174
(632) 921-4042 (fax)

Manila North Area

E. Rodriguez
No. 990-A E. Rodriguez Sr. Ave. Brgy.
Mariana, Quezon City
(632) 705-1943 / (632) 722-2379
(632) 722-2197 / (632) 722-2376 (fax)

Banawe
No. 128-B. WAS Building, Banawe St.,
Quezon City
(632) 711-9456 / (632) 711-9454
(632) 711-9428 / (632) 410-1730 (fax)

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

Malabon
No. 29 Gov. Pascual Acacia Ave.
Malabon City, Metro Manila
(632) 446-7385 / (632) 446-7390
(632) 288-7574 / (632) 288-7572
(632) 288-7571(fax)

Malabon-Gen. Luna
No. 45 Gen. Luna St., Brgy. San Agustin
Malabon City
(632) 281-5612 / (632) 283-6734
(632) 332-5392 / (632) 441-0977 (fax)

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

Valenzuela
Units 12 & 13 Puregold Shopping
Complex, Mc Arthur Highway,
Brgy. Dalandan, Valenzuela City
(632) 794-6063 / (632) 794-6058
(632) 322-2260 / (632) 794-6064 (fax)

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

Manila East Area

Eastwood Petron
No. 188 E. Rodriguez Jr. Avenue (C-5),
Bagumbayan, Quezon City
(632) 211-9543 / (632) 654-0084
(632) 655-1204 (telefax)

Greenhills
No. 7 Eisenhower Tower, Eisenhower
Street, Greenhills, San Juan City
(632) 723-5380 / (632) 219-0207
(632) 721-0990 / (632) 727-4936 to 39
(632) 722-4944 (fax)

Wack-Wack Petron
No. 553 Shaw Boulevard, Brgy. Wack-
Wack, Mandaluyong City
(632) 738-1984 / (632) 738-1985
(telefax) (632) 219-0242

Pasig
Renaissance 2000 Tower, Meralco
Avenue, Pasig City
(632) 635-0392 / (632) 219-0229
(632) 635-3661 to 63 /
(632) 631-3769 (fax)

Main Office-San Miguel
Unit A G/F, San Miguel Properties Center,
No.7, Saint Francis St., Mandaluyong City
(632) 982-6000 loc. 6414 to 6417
(632) 219-0213 / (632) 635-5517
(632) 633-2430 (telefax)

Cainta
Felix Ave., San Isidro, Cainta, Rizal
(632) 682-8524 / (632) 219-0214
682-6243 (telefax)

Concepcion
A.M. PACLEB Building, #52 Bayan-
Bayanan Ave. Concepcion, Marikina City
(632) 941-0714 / (632) 219-0215
(632) 942-0429 (fax)

Marikina
J.P. Rizal St., Sta. Elena, Marikina City
(632) 219-3453 / (632) 646-1808
(632) 646-1802 (fax)

Marcos Hi-Way (Cainta)
No. 4 Gil Fernando Ave. cor. Pitpitan
Street, San Roque, Marikina City
(632) 647-7172 / (632) 647-7165

LUZON

South Luzon Area

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

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

Calamba
Units 6 & 7, New Parian Business Center,
National Road, Brgy. Parian,
Calamba City, Laguna
(049) 502-8508 (fax) / (049) 502-7922

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

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

Lipa
No. 7, Bank of Commerce Building, C.M.
Recto Avenue, Brgy. 9,
Lipa City, Batangas
(043) 756-4214 / (043) 756-2558
(telefax)

Naga City
No. 258 Romar Building-1, Elias Angeles
Street, Naga City, Camarines Sur.
Manila Line: (02) 250-8093 (telefax)
(054) 473-4080 / (054) 811-8931

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

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

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

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

Central Luzon Area

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

Balibago
McArthur Highway Cor. Victor Street,
Brgy. Balibago, Angeles City, Pampanga
(045) 625-5586 / (045) 892-0875
(045) 331-3389 / (045) 331-3390

Baliuag
Doña Victoria Building, Gil Carlos Cor. Año
Streets, Poblacion, Baliuag, Bulacan
(044) 766-2022 / (044) 766-7701
(044) 766-2811 (telefax)

Iba, Zambales
G/F TRB Building, Ramon Magsaysay
Avenue, Zone-2, Iba, Zambales
(047) 811-1024 / (047) 604-1003
(047) 811-1025 (fax)

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

San Fernando
G/F Insular Life Building, McArthur Highway,
Brgy. Dolores, San Fernando, Pampanga
(045) 961-1624 / (045) 961-1675
(045) 961-1680 (fax)

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

Subic Freeport
Global Promenade Building,
Sampson Road cor. Schley Road
Subic Bay Freeport Zone,
Olongapo Zambales
(047) 252-1851 (047) 252-1854
(047) 252-1857 / (047) 252-1863
(telefax)

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

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

North Luzon Area

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

Batac
G.F. Daguio Building, Washington St.,
Brgy. 2 Ablan, Batac City, Ilocos Norte
(077) 617-1603 (telefax)
(077) 617-1363

Cabanatuan
V. P Building, Maharlika Hi-way,
Brgy. H. Concepcion,
Cabanatuan City, Nueva Ecija
(044) 940-1254 / (044) 940-1263 (fax)

Candon
Natonal Highway, Brgy. San Jose
Candon City, Ilocos Sur
(077) 644-0288 / (077) 674-0623

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

Dagupan
Eastgate Plaza, A.B. Fernandez Ave.,
Dagupan City, Pangasinan
(075) 522-8691 / (075) 522-8693 (fax)

San Fernando-La Union
CAP Annex Building, Quezon Avenue
Cor. Gov. Luna Street, San Fernando,
La Union
(072) 242-5683 / (072) 700-1618

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

Urdaneta
The Pentagon Building, Mc Arthur
Highway, Brgy. Nancayanan,
Urdaneta City, Pangasinan
(075) 656-1018 (fax)
(075) 656-1017

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

VISAYAS

Eastern Visayas Area

Cebu-Main
B.Rodriguez cor. Osmeña Blvd.,
Cebu City
(032) 253-1951 / (032) 316-9912
(032) 255-4223 (fax)

Cebu - Ayala
No. 8990 Negros Street, Cebu Business
Park, Cebu City
(032) 415-5164/ (032) 316-9913
(032) 239-0674 (fax)

Cebu-Banilad
G/F University of Cebu Building,
Gov. Cuenco Ave., (Banilad Rd.) 6000
Brgy. Kasambagan, Cebu City
(032) 231-6704 / (032) 316-9921
(032) 231-6706 (fax)

Cebu-Sto. Niño - Magallanes
G/F Unit 2, Martina Sugbo Building, P.
Burgos St. cor. Magallanes St., Brgy. Sto.
Niño, Cebu City, Cebu
(032)253-7708 (fax) / (032) 254-1825
(032) 316-3925

Cebu-Pasil
Virginia Building, Tupas St., Pasil, Cebu
City
(032) 261-1597 / (032) 316-9926
(032) 261-1599 (telefax)

Lapu Lapu
Unit 3-5, AJS Building, Pusok,
Lapu-Lapu City,Mactan Cebu
(032) 341-3854 / (032) 316-9927
(032) 341-3855 (fax)

Mandaue
Entienza Building, National Hi-way,
Mandaue City, Cebu
(032) 346-6901 / (032) 346-6902 (fax)
(032) 316-9262

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

Tagbilaran
G/F CAP Building, CPG North Ave.,
Tagbilaran City, Bohol
(038) 411-5400
(038) 411-3773 (telefax)

Western Visayas Area

Bacolod-Araneta
Yusay Arcade, Araneta St.,
Bacolod City, Negros Occidental
(034) 433-2267 (telefax)

Bacolod-Lacson
Cor. 12th St. & Lacson St.
Bacolod City, Negros Occidental
(034) 433-4238
(034) 433-1139 (telefax)

Dumaguete
G/F CAP Building, Rizal Ave., Poblacion,
Dumaguete City, Negros Occidental
(035) 225-7670 (fax)
(035) 225-7668 - 69 (035) 422-6896
(035) 422-6896

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

Iloilo-Iznart
G/F TCT Building, Iznart St., Iloilo City
(033) 335-0710 to 12

Iloilo-JM Basa
TTW Building, Mapa St., Iloilo City
(033) 337-8721 / (033) 335-1020
(telefax)

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

Kalibo
No. 1280 Garcia Building, C. Laserna
Street, Kalibo, Aklan
(036)262-5294 / (036) 268-9032 (fax)

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

MINDANAO

Mindanao Area

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

Cagayan De Oro-Lapasan
Suites 6 & 7, Gateway Tower 1 Limketkai
Center, Lapasan Highway
Cagayan de Oro City,
Misamis Occidental
(088) 856-3991 / (088) 856-3992
(088) 856-3977 (telefax)

Cagayan De Oro-Velez
Don A. Velez-Akut Sts.,
Cagayan de Oro City, Misamis Occidental
(088) 856-4123 / (088) 856-4371
(telefax)

Davao- City Hall
Valgoson's Realty Building, City Hall
Drive, Davao City
(082) 226-4075 / (082) 226-4074
(082) 226-3926 (fax)

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

Davao Lanang
Consuelo Building, Km. 07, Brgy. San
Antonio, Agdao District,
Lanang, Davao City
(082) 234-1042 / (082) 234-0311

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

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

Zamboanga-Jaldon
G/F Grand Astoria Hotel Building,
Mayor Jaldon St., Zamboanga City
Zamboanga del Sur
(062) 991-2321 (telefax)
(062) 991-0720

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

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

Felipe Martin F. Timbol
Group Head
TMG

Carmelita R. Araneta
Group Head
Operations Group

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

SENIOR VICE PRESIDENTS

Edward Dennis J. Zshornack
Chief Risk Officer
RMD

Homer S. Figueroa
Chief Internal Auditor
IAD

Victor C. Arboleda
Chief Compliance Officer
CD

Edel Mary D. Vegamora
Chief Finance Officer and Controller
FCG

Maximo V. Estrada
Group Head
CoG concurrent AMRD

Teresita S. Galvadores
Branch Operations Support Division Head
OG-BOSD

Paul John T. Reyes
Division Head
TMG-FITD

Anna Marie A. Cruz
Division Head
PDD

Phebe F. Cabildo
Division Head
RBG-ND

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Division Head
CSD

Bernardo G. Talimban Jr.
Officer-In-Charge
ITSD

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Group Head
CG

Louella P. Ira
Division Head
StSG-LSD

Alfredo J. Bautista
Division Head
StSG-Business Systems Division

Alfredo L. Ayson
Division Head
OG-IOD

Jay S. Velasco
Division Head
OG-LOD

Aristeo S. Maralit
Division Head
OG-EBOSD

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Division Head
CBG-Corporate Division

Danielyn P. Casaul
Division Head
CBG-Middle Market Division

Marieta Bernadette A. Sevilla
Division Head
CBG-SME/Program Lending Division

Antonio Basilio C. De Guzman
Division Head
TMG-SID

Numeriano Manuel V. Amparo
Head
PDD-Transaction Banking

Violeta M. Tirol
Division Head
RBG-SD

Alfonso T. Garcia, Jr.
Division Head
RBG-VMD

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Area Head
RBG-SD-MMSA

Bernadette C. Basobas
Area Head
RBG-ND-QCCA

Edwin T. Amahan
Area Head
RBG-VMD-EVA

VICE PRESIDENTS

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Special Assistant
Office of the President/ CEO

Jose Mari M. Zerna
Credit Risk Department Head
RMD-Credit Risk Management Department

Delta A. Audencial
Division Head
TSD

Noel R. Godoy
Head
CG-CCCD

Ma. Eleanor Christina S. Castañeda
Division Head
CoG-CLD

Arturo Gerard T. Medrano III
Department Head
AMRD-Acquired Assets Management Department

Girlie Isabel D. Umali
Department Head
AMRD-Remedial Management Department

Jocelyn Isabel S. Legaspi
Department Head
StSG-LSD-Documentation Department

Corazon T. Llagas
Head
StSG-LSD-Litigation Department

Maria Carmen F. Aquino
Division Head
StSG-HRMDD

Marie Antoinette L. Dela Cruz
Division Head
OG-TOD

Morena V. Abadilla
Division Head
OG-Branch Operations Control Division

Alejandro Antonio B. Gaerlan
Division Head
TMG-FETD

Monette G. De Leon
Division Head
TMG-LALMD

Ma. Teresa L. Zamora
Division Head
TMG-Treasury Marketing & Sales Division

Chona C. Lacson
Area Head
RBG-SD-MMEA

Annalyn D. Delos Santos
Area Head
RBG-ND-MCA

ASSISTANT VICE PRESIDENTS

Charleston M. Tan
Security Officer
Security Office

Sheilah R. Apostol
Division Head - AML Compliance
CG-CAD officer CD - AML Mgt. Dept.

Antonio C. Danao
Department Head
TDS - Account Management Department

Ma. Theresa P. Ramilo
Department Head
ITSD-Project & Development Management-Applications Management

Mark S. Pantallon
Division Head
FCG-AD

Concesa N. Veneracion
Department Head
FCG-AD-General Accounting Department

Wilma L. Daliva
Division Head
CG-CAD

Maria Ana P. Dela Paz
Division Head
CG-CEMD

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Department Head
CoG-CLD-Housing Loans Department

Alfredo T. San Juan, Jr.
Department Head
CoG-CLD-Auto Loans Department

Andrew D. Cajucom
Head
CoG-Credit Card Unit

Patricia M. Onda
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AMRD-Acquired Assets Management Department-Sales & Marketing Section

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Department Head
StSG-HRMDD-Compensation & Benefits Admin. Department

Marie Kristin G. Mayo
Department Head
StSG-HRMDD-Recruitment and Manpower Planning Department

Leah Antoinette C. Cruz
Department Head
StSG-HRMDD-Training and Development Department concurrent People Relations & Research Department

Medallon R. Abrena
Department Head
StSG-BSD-Methods & Standards Department

Joanne A. Del Rosario
Department Head
StSG-BSD-Credit Policy Department

Arlyn C. Valero
Division Head
StSG-GSD

Jacqueline A. Domingo
Area Operations Officer
OG-Branch Operations Control Division (Metro Manila South & South Luzon Area)

Don M. San Juan
Area Operations Officer
OG-Branch Operations Control Division (North Luzon Area)

Rizaldy D. Tolentino
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CBG-Middle Market Division-Metro Manila Luzon

Romil D. Langones
Department Head
CBG-Middle Market Division-Visayas/ Mindanao

Alma A. Malabanan
Department Head
CBG-SME/Program Lending Division-Program Lending

Marlene P. Ignacio
Department Head
CBG-SME/Program Lending Division-Small Medium Enterprise

Dino Joseph A. Ramirez
Department Head
TMG-FITD-Credit Trading / ROP Department

Paulyn V. Bernabe
Department Head
TMG-TMSD-Whole Sale Department

Camilla Genevieve A. Rimando
Department Head
PDD-Alternative Channels Department

Aiveth D. Yuseco
Department Head
PDD-Transaction Banking

Ma. Theresa G. Soriano
Area Head
RBG-SD-MA

Ma. Clariza M. Ang
Branch Manager
RBG-SD-MA-Ayala Branch

Lolita B. Carlos
Branch Manager
RBG-SD-MA-Dela Costa Alfaro Branch

Teodoro Q. Donato III
Branch Manager
RBG-SD-MA-Zuellig Branch

Leilani G. Bañes
Branch Manager
RBG-SD-MA-Pasay Road Branch

Peter M. Co
Branch Manager
RBG-SD-MA-Pasong Tamo Ext. Branch

Lucibar T. Perocho
Area Head
RBG-SD-MWA

Liberty A. Balgemino
Branch Manager
RBG-SD-MMEA-Main Office (San Miguel) Branch

George E. Consul
Officer-In-Charge
RBG-SD-SL

Lourdes V. Arriola
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RBG-ND-MMNA-Malabon I Branch

Lucia I. Tolentino
Branch Manager
RBG-SD-SL-Calapan Branch

Kelwin S. Salvador
Branch Manager
RBG-ND-MCA-Grace Park Branch

Belen T. Ramos
Branch Manager
RBG-ND-MCA-Soler Branch

Marion P. Capati
Branch Manager
RBG-ND-QCCA-Commonwealth Branch

Cristina T. Ang Dy Pay
Branch Manager
RBG-ND-QCCA-Del Monte Branch

Aurora R. Del Rosario
Branch Manager
RBG-ND-QCCA-West Triangle Branch

Georgina M. Borcelis
Area Head
RBG-ND-MMNA

Ma. Isabel D. Lipana
Branch Manager
RBG-ND-CLA-Baliuag Branch

Roy L. Damole
Branch Manager
RBG-VMD-EVA-Cebu Mandaue Branch

Rafael Lito D. Carbonell
Branch Manager
RBG-VMD-EVA-Lapu Lapu Branch

Marlo D. Montelibano
Area Head
RBG-VMD-WVA

Ma. Consuelo M. Tan
Area Head
RBG-VMD-MiA

Helen P. Leung
Project Manager
ITSD - project & development Management Project Management Office

Bank of Commerce

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