

POWERED BY HEART

2013 ANNUAL REPORT OF STERLING BANK OF ASIA



Vision, Mission and Core Values

Our Vision

Sterling Bank of Asia, the Bank with a Heart, is the new standard for future generations of bankers, driven by integrity and a deliberate will for excellence - a legacy!

Our Mission

We are committed to exceed customer service expectations.

We will actively identify and innovatively respond to their evolving needs.

We are propelled by competent and team-oriented professionals in a respectful, caring and nurturing environment where everyone can maximize his potential.

We will be responsible stewards of the resources entrusted to us, and we will share the resulting benefits with society.

Our Core Values

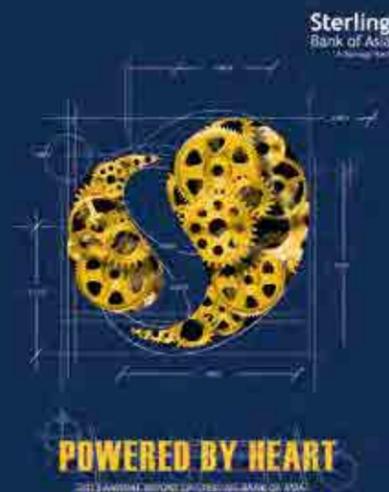
We will manifest the Sterling Bank of Asia Philosophy through consistently demonstrating and living the following core values:

Service Excellence
Professionalism
Social Consciousness

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ABOUT THE COVER



In a corporate landscape full of fierce competition, Sterling Bank of Asia continues its success by sticking to its roots as the Bank with a heart. Sterling Bank welcomes new innovations to better itself; but has remained steadfast to that which has distinguished it from all other competition, its heart. A heart, which has fostered growth in SMEs and continues to deliver service unlike any other to all its patrons. Powered by heart not only encompasses the passion of the company for growth but also gives a nod to the men and women who have made this bank what it is today. It alludes to the vision and dedication of the leaders, founders and employees that have allowed Sterling Bank of Asia to achieve new heights with each passing year. Powered by heart is a testament to the ingenuity and dynamism that the bank has adopted to give its customers the service with the most heart.

Message from the Chairman

The Philippines is at a crucial point in our economic history and Sterling Bank remains strong and sure-footed.

The Philippine economy has surprised the world with stable and consistent growth in light of economic slowdown in the region that has caused Thailand and Malaysia to cut their growth targets. Mainly due to our significant improvements in the performance of our national budget and good governance, the three main rating agencies, Standard & Poors, Moody's and Fitch have all rewarded the country with upgrades in our country investment ratings. This despite the destruction and challenges brought about by Typhoon Yolanda.

Our banking industry continue to evolve. It is now even more heavily regulated and competition has grown tenfold. The challenge has taken a new dimension as it marry the work of raising resources and putting these resources to work in the best possible way. We in Sterling Bank will meet these challenges successfully.

The Bank has received new licenses from the BSP for 13 more branches and this will bring our retail network to 51 branches at the very least in the next 3 years. The locations of these branches have been identified and are expected to work well with our overall strategy to provide an improved reach for our clients all over the archipelago.



A capital build-up exercise is being studied to address the issue of scale that will make Sterling Bank stay relevant to our clients and competitive in view of the upcoming ASEAN financial integration.

While the numbers, deposit and loan levels, are important, the heart and soul of banking remains to be its human resources. Banking and building a brand is a 'WE' and not an 'I' business. The commitment of the owners and Board of Directors of Sterling Bank will be to continue to build Sterling Bank with major considerations to all its stakeholders.

This is how we intend to stay relevant in a very dynamic industry. We are fast on our feet and nimble to respond to clients' needs within a tightly regulated environment. We are easy to approach and talk to because of how our human resources are trained. As a result, we live up to our vision of being a Bank with a heart and this is where we make a difference and the center of our strength.


RUBEN C. TIU
Chairman of the Board

Report of Directors

To our Stockholders:

Sterling Bank of Asia's performance for the past three years resonates our pursuit of a strong and continued growth, balanced with prudent management, offering breakthrough products, and excellent service.

Our strategy is based on a clear sense of purpose by standing firm on our core values and continuously innovating with as much zest and passion since we started; giving quality products and services you can rely on and believing even more in the power of relationship-banking.

Robust Performance in 2013

In 2013, Sterling Bank of Asia improved its income performance while maintaining a strong capital adequacy ratio. Our net income rose by 20.10% to P60.603 Million from P50.460 Million in 2012, despite the booking of P123 Million provision for probable losses. Fee-based Income likewise increased by 27% or P153 Million to P716 Million, from trading gains and sale of acquired assets.

The Bank's capital position remains strong. Capital Adequacy Ratio (CAR) stood at 13.8%, well above the 10% regulatory requirement.

Our commitment of providing service excellence is our driving force to continue improving our products and services. We enhanced our brand equity through breakthrough products that would address specific client needs with effective marketing and communication initiatives. Last year, we began offering the Neo Kiddie Savings Account to encourage the young to save. We also launched the Bayani OFW Savings Account and the ShopNPay US Dollar Visa Prepaid Card, the first and only US dollar-denominated Visa prepaid card, to assist the rising number of travelers.

After extending our reach in the past seven years, serving clients from Baguio all the way to General Santos City, Sterling Bank of Asia enhanced its operations and streamlined processes to be more efficient. We strengthened and reorganized our Consumer Banking, Risk Management, and Operations, as well as upgraded our IT infrastructure which backbones all our day-to-day operations.

In a crowded banking landscape that Sterling Bank of Asia is confronting, we remain resolute as we face the challenges. Our motivated and committed team is driven to make Sterling Bank of Asia visible in every aspect.

Performance in 2012

Sterling Bank of Asia posted a net income of P50.460 Million in 2012, lower by P75.851 Million compared to 2011 due to the booking of P78 Million provision for probable losses. Gross Operating Income expanded by 3.31% or P56.498 Million to P1.764 Billion from P1.708 Billion in 2011. Growth in Non-Interest Income was 87.25% or P71.790 Million mainly from trading gains, commissions and service fees and foreign exchange gains.

Total Resources of the Bank at year-end stood at P27.354 Billion, higher by P579 Million or 2.16% compared to 2011. The increase came from Cash and Due from Banks by P809.257 Million and Trading and Investment Securities by P73.916 Million. Loans and receivables from customers net of impairment and credit losses also recorded an increase of P1.402 Billion or 9.54% to P16.092 Billion. The increase in gross loans was mainly driven by the strong demand in corporate and consumer loans. Continued efforts were also undertaken to re-energize the branches' capability as the primary distribution channel for loans and investment products nationwide.

Total Liabilities increased by P185.135 Million or 0.73% to P25.427 Billion from P25.242 Billion in 2011. CASA deposits grew by 15.46% to P5.951 Billion while high cost deposits went down by 7.03% or P1.317 Billion to P17.419 Billion, this brought the CASA mix ratio in 2012 to 25.47% from 21.58% in 2011. In May 2012, the Bank issued P500 Million Unsecured Subordinated Debt, the issuance of which was approved by the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) on January 5, 2012.

Stockholders Equity increased by 25.68% to P1.927 Billion. In 2012, the Bank's application to increase its authorized preferred stock amounting to P1 Billion was approved by BSP and SEC on November 6, 2012 and Dec. 27, 2012 respectively. A total of P62.500 Million preferred shares were issued on Dec. 27, 2012.

Continuing Growth in 2011

The Philippine economy continued to prove resilient in 2011, steadily growing despite the rocky external conditions that rippled across the globe. The Arab spring took oil prices on a roller coaster ride, the tsunami in Japan resulted in production bottlenecks and the Euro debt crisis threatened the recovery in developed economies. Despite these, overseas remittances continued to grow and to fuel a consumer driven economy.

The banking system remained robust notwithstanding the closure of 32 banks. The exit of weak players, in fact, served to strengthen the industry and provide opportunities for stronger players.

Despite its more prudent approach, Sterling Bank of Asia saw its income growing by 7.1% to P126.31 Million from P117.92 Million a year ago.

Net interest income grew by 9.2% to P884.9 Million from P810.3 Million in 2010 and income from service charges and fees increased by 7.3% to P122.9 Million from P114.5 Million a year ago. Corporate loans expanded by 12.9% to P8.36 Billion from P7.41 Billion while consumer loans grew by 6.3% to P4.58 Billion from P4.31 Billion.

Sterling Bank had a good pulse of the market in 2011 despite the volatilities that brought in P348.8 Million in trading gains, a 47.1% jump over last year's P237.1 Million.

Sterling Bank's total resources expanded by 13.2% to P26.78 Billion in 2011 from 2010's P23.64 Billion, with loans growing by 7.9% to P14.69 Billion while deposits rose by 14.9% to P23.89 Billion.

Sterling Bank increased its capital by P250 Million in March 2011 bringing it to P1.5 Billion to further strengthen the Bank. Last July, Sterling Bank's Board of Directors approved an increase in its authorized capital stock that doubled it to P3 Billion from P1.5 Billion.

Looking Ahead

The past three years have been characterized by subdued credit growth and intense competition. Against the backdrop of the economic and financial market conditions, Sterling Bank of Asia sees these not as a threat but as an opportunity to further expand and sustain its remarkable performance. It will continue to operate in a disciplined and prudent manner with focus on enhancing its employee productivity to deliver sustainable improvements in business performance.

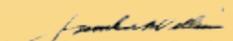
Sterling Bank's strategy and focus of serving its customers remains paramount. This is well understood not just by its senior officers but down to its rank and file employees thus creating a culture of passion that exceeds customer service.

The Bank will continue to be conservative and at the same time sensitive to change in the external environment, while competing strongly in all the market segments it serves.

The achievements of the Bank would not have been possible without the support of everyone – the regulators, our clients, stockholders, Board of Directors, management and staff. We are moving closer to our goal without letting our sight stray from what has propelled us to bank to a different beat. We are hoping that it will not be long and we will be able to soar higher, possibly carving a niche in the banking industry.

We are a Bank with a heart that is sensitive to the relationships we build with those who place their confidence in our hands. To us, each customer represents a chance to fulfill a dream and to make a difference in people's lives. It is only through the trust of our clients that we have grown this strong after seven years, and it is through our passion for excellence that we lift ourselves onwards and upwards in the years to come.


RUBEN C. TIU
Chairman of the Board


ATTY. LAMBERTO R. VILLENA
President & CEO

Financial Highlights

2013 vs. 2012

Sterling Bank of Asia posted a Net Income of P60.603 Million, higher by 20.10% from P50.460 Million in 2012, despite the booking of P123 Million provision for probable losses. Fee-based Income increased by 27% or P153 Million to P717 Million, basically, from trading gains and sale of acquired assets while net revenue from funds decreased by P28 Million to P839 Million due to lower interest income on investment securities.

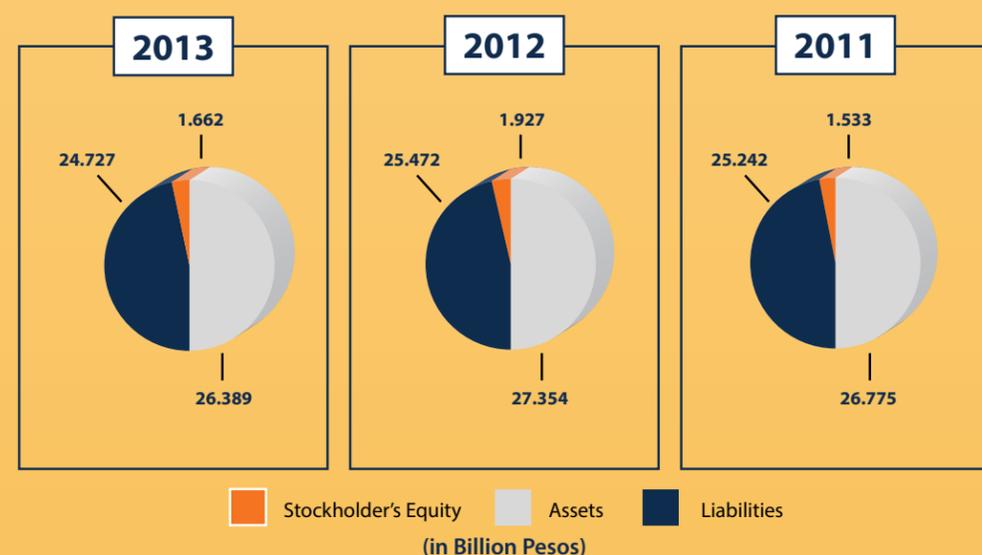
Operating Expenses in 2013 increased by P73 Million. Part of this was brought about by Compensation and Fringe Benefits expense amounting to P28 Million as payment for accrued sick leave in excess of the allowed 30 days maximum accumulated leave, and increase in number of personnel. The Bank likewise expanded its branch network to thirty eight (38) from thirty six (36) in 2012.

Total resources stood at P26.390 Billion, a decrease of P965 Million or 3.53% compared to the previous year. The decrease was brought about by lower volume of Available for Sale Securities by P2.235 Billion or 39.71%. There were increases in investment securities portfolio by 296.08% or P1.164 Billion to P1.557 Billion and in Cash and due from Banks by 6.42% or P241 Million.

Loans and receivables from customers net of impairment and credit losses recorded an increase of P202 Million or 1.25% to P16.294 Billion in 2013. The increase in gross loans was mainly driven by the strong demand in corporate and consumer loans as branches also served as distribution channels for loans and investment products.

Total liabilities decreased by P699.953 Million or 2.75% from P25.427 Billion in 2012 to P24.727 Billion in 2013. The decline resulted from a decrease in high cost deposits by P1.788 Million from P17.419 Billion in 2012 to P15.631 Billion in 2013. This resulted from the Bank's efforts to reduce high cost deposits for better deposit mix and managed weighted cost. As a result, CASA grew by P1.196 Billion or 20.09% to P7.147 Billion, an improved CASA mix ratio of 31.38% in 2013 from the 25.47% in 2012.

Stockholders' Equity decreased by P265 Million or 13.74% to P1.662 Billion mainly due to unfavorable market value of Available for Sale Securities. Although Equity decreased, the Return on Average Equity went up from 2.92% to 3.38% in 2013.



2012 vs. 2011

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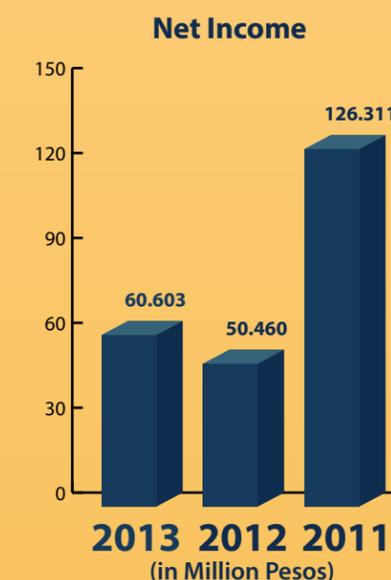
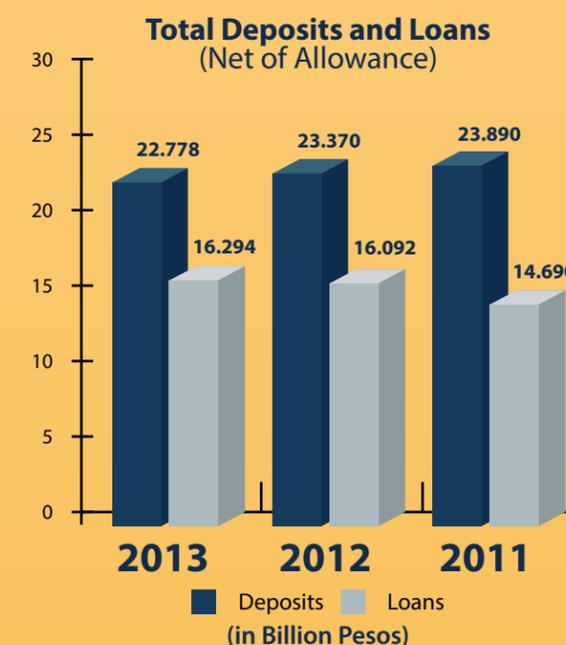
Operating Expenses increased by P44.718 Million as the Bank continued to expand its business operations and investment in technology. The Bank expanded its branch network to thirty six (36) from thirty three (33) in 2011. Likewise, its ATMs including offsite increased to a total of thirty nine (39) in 2012 from thirty five (35) in previous year.

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Operational Highlights

Treasury

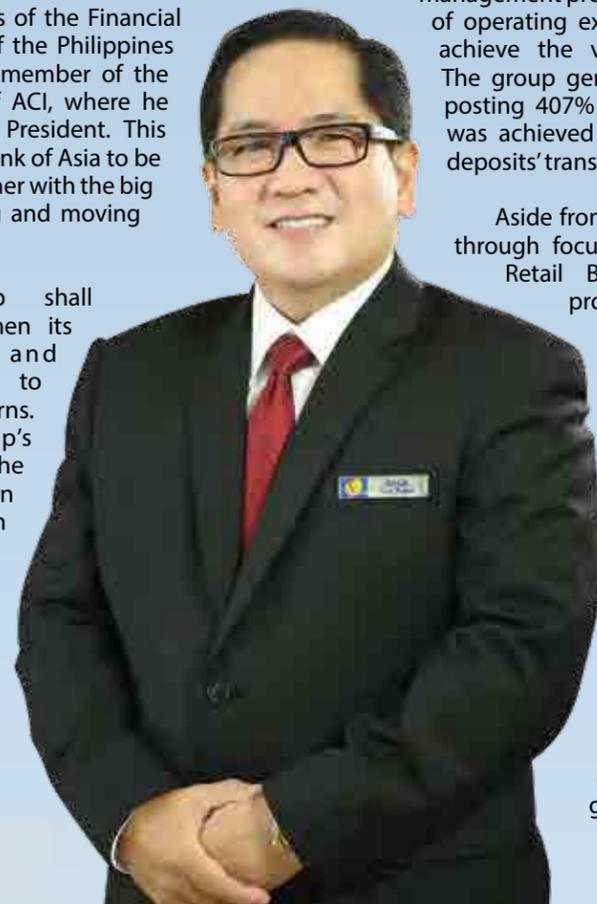
The Treasury Group gave an exemplary performance for 2013, hitting a record P672 Million in trading income last year. This exceptional performance was driven by the group's focus on local fixed income markets, which contributed 72% of the total fee-based income. The remaining income amounting to over P185 Million came from the whole spectrum of other Treasury products, which includes foreign exchange and other money market instruments. The seamless team effort from the various Treasury Groups namely, Fixed Income & Liquidity Management, Foreign Exchange and Financial Market Sales, made for a stellar year.

In addition to maximizing trading income and taking advantage of market opportunities, the Treasury Group also puts much emphasis on its commitment to its clients. The group strives to exceed client expectations and foster a deeper understanding of client needs and requirements. Quality client service is a top priority for all interbank, corporate and individual clients.

Sterling Bank of Asia has continued to make its mark in the industry, and has gained name recognition with its Treasurer, Cecilio Paul San Pedro, being very active in the market. He is a member of the Board of Directors of the Financial Executives Institute of the Philippines (FINEX), as well as a member of the Board of Directors of ACI, where he serves as duly elected President. This has helped Sterling Bank of Asia to be in the forefront, together with the big players, in developing and moving the industry forward.

Treasury Group shall continue to strengthen its investment portfolio and relentlessly strive to achieve its target returns. This year, the group's increased efforts in the interbank spot foreign exchange has begun to make ripples in the market and have been noticed by other major market players.

The swap activities with local counterparties will play an important



role in the Bank's quest for a dynamic participation in the financial markets. This will definitely lead to an increased number of financial institutions granting Sterling Bank of Asia more accommodative counterparty facilities. Sterling Bank of Asia is more than ready to take on greater challenges and to operate amongst other commercial and universal banks given the appropriate license by the BSP.

Note: On September 11, 2009, the Bangko Sentral ng Pilipinas (BSP) approved Sterling Bank's application for Type 3 Derivatives License, which authorized the Bank to engage in forwards and swaps. However, Treasury ceased to engage in Non-Deliverable Forwards (NDFs), pursuant to BSP Circular 790 dated March 06, 2013.

Retail Banking

The Retail Banking Group's main thrust has a client-focused strategy – to be the core bank to its clients through deepening and cementing relationships and providing them with a broader range and innovative financial products and services. It made its CASA products central to its strategy, resulting to an improved deposit mix ratio.

Through the Retail Banking Group's focus on low-cost funding, full implementation of the sales management process, and prudent management of operating expense, the group was able to achieve the volume expected from them. The group generated P45 Million in income, posting 407% increase from its budget. This was achieved despite decline in income on deposits' transfer pool rate (TPR).

Aside from improving the sales capability through focusing on CASA generation, the Retail Banking Group also ensured proper staffing at the branch level and converted each branch to a full sales unit that could cross-sell other bank products to the retail clients. Another factor that contributed to its strong performance was the increase in fee-based income by 20%.

The group also focused on maximizing synergy with iRemit that led to further growth in its card-based business. Apart from focusing on CASA the group likewise implemented an entrepreneurial mindset to guide the branches in ensuring

that each of them will contribute positively to Sterling Bank's bottomline.

Despite the persistent aggressiveness of competition, Retail Banking Group maintains to contribute significantly in the total improvement of the Bank's position. They will continue to provide the same commitment and strategy this year but being more conscious with their profit and loss this time. This year, the group plans to increase the number of earning branches after allocation of expense.

Commercial Lending

Commercial Lending Group offers a full range of customized financial services to small and medium enterprises. Most universal and commercial banks have spread their risks by tapping not just the top corporations but also the small and medium enterprises. Because of this, lending rates have become competitive.

Although faced with said competition, Commercial Lending increased its revenues from P681.98 Million in 2012 to P703.1 Million in 2013. Net income also improved from P77.81 Million in 2012 to P162.31 Million in 2013. This represents a 110% increase, brought about by the group's relationship-based lending practices, prudent credit evaluation processes, and management support in building a loan portfolio.

Commercial Lending Group sustained its strong performance in 2013. This was brought about by the group's consistent execution of its customer-centric strategy. Continuous innovation and customization of loan products suitable for its clients' needs, coupled with careful planning before prudently putting strategies into action were the key success factors that led the group to attain such robust performance.



The group will carry on its thrust to increase the Bank's loan portfolio and generate higher income by continually focusing on the small and medium enterprises and quality accounts.

Commercial Lending Group also plans to solicit and expand further their trade financing business for both Import and Export Letters of Credit taking advantage of the fact that Sterling Bank of Asia is one of the two thrift banks that has an LC license out of the sixty nine thrift banks operating in the country.



Consumer Lending

Consumer Lending Group posted a growth of 2.08% in its loan portfolio, which consists of auto loans, personal loans and real estate loans amounting to P4.198 Billion, surpassing previous year's level of P4.112 Billion. Under new, expanded leadership, and more standardized and streamlined practices, the Consumer Lending Group turned around from -13.5% in 2012.

Its major initiatives include the accreditation of more personal loan agencies, engagement of new developers for CTS and end-user financing and re-establishment of its relationship with automotive dealers to become one of the premier partners in auto loan financing again.

The team also focused its plans and programs in the expansion of business by engaging the branch employees as one of the major channels of distribution. With the utilization of the Bank's thirty eight (38) branches as distribution channels, the Bank effectively expanded its reach and breadth to areas which were previously untapped.

The team likewise impressed upon the sales team the significance of planning and setting objectives. Strategic planning involved not only the team heads

but also the line assistants and support units. Monthly business reviews were being conducted to assess the performance of each loan officer and assistant.

Credit guidelines were redefined and standardized. Periodic meetings with Loan Operations and IT were set to discuss ways to further improve turnaround time of loan processing and disbursement. Collection efforts of the team were also improved and strengthened through balancing of resources, such that efforts were more focused on higher balances. Loan restructuring programs were also offered to help those who were willing to pay but for some reason were not able to cope up with the monthly payments. Hence, the group remains resilient and focused on improving the quality of its loan portfolios through investment in collections capacity and tightened control processes.

In the coming year, Consumer Lending Group looks to expand further its delivery channels through the opening of a Luzon Lending Center, and incorporating sales desks in Cagayan De Oro, Iloilo, and Davao under the Vismin Lending Center. Training in both behavioural and technical skills are likewise in the offing, being designed to further hone talents and build capabilities of the team's human resources.

Trust Banking

Since its inception on June 2008, Sterling Bank Trust Group has consistently posted growth both in volume and revenues.

The Trust Group has maintained its upward momentum in 2013 by keeping abreast with industry and market updates, ensured access

to investment opportunities, developed investment packages subject to the clients' requirements, as well as developed close coordination with the Bank's distribution channel by offering various investment alternatives to sophisticated clients, thereby, expanding its network. Its volume grew by 12% from P1.75 Billion in 2012 to P1.97 Billion in 2013.

The group also expanded its services by engaging in traditional trust products such as Escrow arrangements. It also maximized the availability of new government and corporate bond issuances that contributed in the growth of its Investment Management accounts. For retail trust clients, Trust Group launched the Sterling Balanced Fund (a Unit Investment Trust Fund) in second quarter 2013. This UITF allowed clients to invest for a minimum amount of P100,000 in a balanced portfolio of fixed income and equities. This is the third UITF offering of the Trust Group. The first two (2) UITFs were the Sterling Money Market Fund (Peso-denominated) and the Sterling \$ Money Market Fund. These were achieved despite the very stiff competition as well as regulatory changes that affected the Investment Management business of the Trust banking industry.

By the third quarter of 2014, Trust will offer new investment funds, the Sterling Bond Fund and the Sterling Equity Fund to add variety to the Bank's product line, and help it double its volume and generate higher revenues.

Looking ahead, driven by focus on addressing the different investment needs of the customer, Sterling Bank Trust will be able to provide a wider range of investment services and eventually contribute to the Bank's overall strategic direction and success.

Human Resources

The diversity of Sterling Bank's employees, coming from different banks and industries, provide the Bank with a distinct source of strength. The Bank puts particular importance on continuous

improvement, the way its employees work and live the Bank's corporate values and culture. By focusing on empowering and engaging its employees, it continues to drive performance.

In 2013, the Human Resources Group ensured that all of the practices produced a direct impact on the business results. In cooperation with Retail Banking Group, it launched the Marketing Associates Sales Training Program to enhance the sales competencies of identified branch staff nationwide. Not only did this intensify sales efforts across the board, but provided the staff with meaningful career opportunities in the field.

The Group conscientiously implemented recruitment and retention tools to respond to the organization's personnel needs. The Service Level Agreement (SLA) is under constant fine-tuning, and with close coordination with the Marketing Group, to raise the standards and competitiveness in the industry. To keep its gains moving forward, the structure of the employee benefits program has been augmented to meet, if not exceed, industry practices.

This year, the Human Resources Group will focus on maximizing the capabilities of the Bank's Consumer Lending Group. Additional training to enhance the Bank's collection and documentation techniques in order to help them meet their goals will be implemented.

The Human Resources Group is leveraging on the passion and commitment of the Bank's management team in shaping the Sterling Bank culture. Creating an excellent service culture and nurturing its employees continue to be the key priority of the Human Resources Group.



Information Technology

The demand for technological innovation has rapidly intensified across all industries. As part of the Bank's push for automation that will support its business plans, the Information Technology Group (ITG) continued to play an important role in implementing business and technological projects to address the increasing need for a sound IT infrastructure.

In 2013, Information Technology Group's initiatives were spent mainly to improve, enhance and augment the existing applications with the goal of facilitating transaction throughout as well as provide management and regulatory reporting. The IT Group also supported the business in testing and rolling out new products like the USD-denominated prepaid cards.

In addition to the core applications that are already running in the Business Continuity site, additional support applications were implemented thus further strengthening the disaster-preparedness posture of the Bank. Business Continuity testing on actual live transactions has confirmed such readiness.

Regarding compliance to BSP technology-based mandates, the Bank is positioned to be among the first banks to fully comply with the requirement to migrate magnetic-stripe cards to EMV-chip cards before the 2017 deadline. As of year-end, almost 60% of all Sterling Bank issued cards are already using EMV chips.

For 2014, Sterling Bank of Asia acknowledges that the Bank has to execute technology-based banking ventures by lining up more business applications and IT infrastructure projects. IT group will continue to be a force and play a fundamental role in serving the requirements of the Bank's external and internal customers in this age of technological revolution.



Business Support and Services

In line with the Bank's thrust to provide excellent customer service, the Business Support and Services Group ensured that they were able to support the front liners in an efficient manner. The Group continued its customer-focused service delivery and heightened operational efficiency.

Service processes were evaluated and streamlined resulting in a more responsive and efficient group, ably supporting the various frontline offices.

In-house and external trainings were conducted to deepen technical knowledge and to develop future leaders who will be in the forefront of planned satellite units as the Bank continues to grow and expand its products and services.

Last year, Sterling Bank of Asia was a BSP awardee for "Outstanding Philpass Participant Servicing Customer ePayments" for the Thrift Bank Category. This is in recognition of the Bank's performance in terms of volume, frequency and value of remittances and customers electronic transactions. The Bank was also conferred the 'Pagtugon Award' for Thrift Banks by the Bangko Sentral ng Pilipinas (BSP) during its 10th Awards Ceremony for BSP Stakeholders and in celebration of BSP's 20th Anniversary. This award recognized Sterling Bank of Asia as the most proactive bank which promptly responded to referrals of customer issues in line with the BSP advocacy to uphold consumer protection. The award creates a greater sense of awareness and responsibility for banks in ensuring responsiveness and greater efficiency in serving and protecting the interests of their clients and the general public in adhering to best practices of customer service. The award validated the commitment of Sterling Bank of Asia to deliver excellent service to its valued clients and with empathy.

Despite the increasing volume of operational transactions, the group ensures that key measures are in place to improve productivity and maintain cost-efficient operations.



Breakthrough Products

Understanding the diversity and changing needs of customers, Sterling Bank of Asia continues to enhance its products and services. By leveraging the skills and market knowledge of its marketing professionals, the Bank was able to respond to the needs of its customers by coming up with innovative products and services. This is a reflection of its sincere desire and dedication to help its customers in their personal and professional growth.

Last year's launching of Neo Kiddie Savings Account, a special savings account geared towards encouraging children to save at a young age, the Bayani OFW Savings Account, savings product catering the OFWs and the ShopNPay US Dollar Visa Prepaid Card, the first and only US dollar-denominated Visa prepaid card for travellers, are just some of the significant manifestations of how much the Bank value its customers.

The launch of these breakthrough products have pushed the branches to embark on extensive acquisition activities and to deepen relationship to increase product availment thereby increasing deposit levels.

Product Features



STERLING BANK LAUNCHES NEO SAVINGS ACCOUNT AT MAN OF STEEL SPECIAL SCREENING

What a way to make minors feel like supermen by giving them the privilege of having their own bank accounts?

This message was sent across during the launch of Sterling Bank of Asia's Neo Savings Account. It made much sense that the occasion was tied up to a couple of special screenings of the highly anticipated movie "Man of Steel" at the Powerplant Mall in Rockwell, Makati.

"We're here to help parents paint a bright future for their children with this special savings deposit account. The Neo Savings Account encourages your kids to save by giving them incentives for putting money in the bank," said Atty. Lamberto Villena, CEO of Sterling Bank of Asia.

The Neo Savings Account is a special savings deposit account for children ages 17 years old and below. The purpose of this product is to allow youngsters to save money for the future -- an unprecedented banking service that can ultimately change the frame of mind of young Filipinos when it comes to appreciating the value of money early on in their lives.

Children can open their Neo Savings Account with no minimum initial deposit required and with just a minimum balance of P2,000 for the interest rate of 0.375% per annum.

The Neo Savings Account also comes with a specially designed passbook and Neo Visa debit card which allows one to withdraw cash via Automated Teller Machines (ATMs) and make purchases at any VISA accepted outlet.

"Our plan is to promote the Neo Savings Account to various schools so that while young children will be taught the value of saving for their future" said Mr. Mario Ramon Z. Gatus, AVP and Marketing Group Head of Sterling Bank of Asia.

To make it more exciting, Neo Savings Account holders will enjoy special treats and promos such as discounts to Visa sponsored shows, gift checks from National Book Store and a limited edition Neo bag for free.

For children below seven years old, Neo Savings Account will be opened under In-Trust-For (ITF) while those older may sign an account opening form based on Presidential Decree No. 734 which authorizes minors to deposit and withdraw from banks.



Sterling Bank of Asia Partners with Visa to Issue the First and Only US Dollar Visa Prepaid Card with EMV Chip

Sterling Bank of Asia recently launched the ShopNPay US Dollar Visa Prepaid Card, the perfect travel companion that offers easy access to funds without sacrificing security. The ShopNPay US Dollar Visa Prepaid Card is the first and only locally-issued US dollar prepaid card that is embedded with an EMV chip, the global standard for chip-based credit and debit card transactions.

Sterling Bank of Asia's ShopNPay US Dollar Visa Prepaid Card is perfect for businessmen who frequently travel abroad and individuals who are on vacation overseas. It is also suited for professionals who receive their per diem in US dollars for business trips as well as for students studying abroad to receive their allowances as it is a valuable aid in budgeting.

A Perfect Travel Companion

This first-of-its-kind Visa Prepaid card, reduces the risk of travellers from carrying large amount of cash and also minimizes risk from foreign exchange fluctuations. For US dollar transactions, merchants debit the actual value of the transaction from the prepaid card. Some merchants, however, give cardholders the option to charge the transaction either in US dollars or in the country's local currency.

With its EMV-chip technology, frequent travellers are provided with a safe, simple, and convenient way to pay without having to worry about carrying large amount of cash.

Access Anywhere

The ShopNPay US Dollar Visa Prepaid Card allows travellers to access funds from any of the 29 Million Visa-accredited merchants and at over 2 Million ATMs around the world in more than 200 countries.

The ShopNPay US Dollar Visa Prepaid Card can also be used to shop online, especially from Amazon and iTunes where purchases are denominated in US dollars.

Greater Control of Spending

The ShopNPay US Dollar Visa Prepaid Card also translate to greater control of travel funds, as the cardholders can only spend what is available in their card. Today, more and more Filipinos are falling in the traps of big debts due to credit card bills that have piled up. The ShopNPay US Dollar Visa Prepaid Card eliminates this because the cardholder can spend only the amount available in their cards. They can enjoy the privileges and convenience of shopping and dining while traveling without having to worry about monthly bills.

The ShopNPay US Dollar Visa Prepaid Card can be loaded with up to \$2,000 every month via transfer from existing Sterling Bank Solo Dollar Savings Account, offering further convenience to cardholders.

STERLING BANK OF ASIA PROVIDES TRAVELERS WITH PEACE OF MIND

Sterling Bank launched its ShopNPay US Dollar Visa Prepaid Card during the Bank's recently held event dubbed "Destination to a perfect travel companion", that was a good mixture of business and lifestyle bringing together the Bank's top executives and partners.

During this event, versatile athlete, businessman, and TOYM Awardee, Chris Tiu was officially launched as the brand ambassador of Sterling Bank of Asia's ShopNPay US Dollar Visa Prepaid Card.

In today's fast-paced world, consumers are becoming more discerning when it comes to traveling. Accessibility, ease of payment, dependability and efficiency are key ingredients in creating the perfect mix for this market. Sterling Bank of Asia took all these elements into consideration and coupled with the current trends and lifestyles of today, partnered with Visa to come up with the first-of-a-kind ShopNPay US Dollar Visa Prepaid Card, the only locally-issued US dollar-denominated Visa prepaid card with EMV chip. With its EMV-chip technology, frequent travelers are provided with a safe, simple, and convenient way to pay without having to worry about carrying a large amount of cash.

"We continuously develop innovative ways to make paying for travel a seamless experience, and the ShopNPay US Dollar Visa Prepaid Card delivers a convenient, secured and budget-friendly way for Filipino travelers to manage their funds while traveling abroad," said Sterling Bank of Asia's President and CEO Atty. Lamberto R. Villena.



Gitesh Athavale, Visa Southeast Asia's Director for Prepaid Cards, said "We are proud to partner with Sterling Bank of Asia to celebrate this milestone and our shared commitment to provide innovative and convenient solutions for Filipinos. Sterling Bank of Asia's ShopNPay US Dollar Visa Prepaid Card offers a simple and convenient way for travelers to pay, reducing the risk of bringing cash which can be less secured and harder to track when traveling abroad."

Your ticket to a wide range of benefits

The ShopNPay Visa Prepaid card will enable Filipino travelers to enjoy a number benefits such as:

Access to digital currency

— with ShopNPay US Dollar Visa prepaid cards, travelers will be able to experience the convenience of cashless transactions.

Easier management of their funds — there is a record of all transactions, making it easier to keep track of cardholders' expenses.

Wide acceptance — the ShopNPay US Dollar Visa Prepaid Card can be used in over 130,000 Visa-affiliated merchants nationwide. It is also accepted at over 200 countries and territories wherever Visa is accepted, and at over 2 Million ATMs around the world.

The ShopNPay US Dollar Visa Prepaid Card is perfect for frequent travelers seeking convenience, security and worry-free payment method when traveling abroad.

Corporate Governance

Sterling Bank of Asia, Inc. upholds good governance as a key to a strong corporate culture. It established internal controls and mechanisms to improve its overall governance, risk management and internal processes.

As part of strengthening the functions within the Bank, its Board of Directors (BOD) and Senior Management (SMC) are actively involved in planning, approving and reviewing the Bank's strategies to guide its operations and establish accountability at all levels.

There are eleven (11) members of the Bank's Board of Directors, who are qualified business professionals with expertise and experience in directing the Bank's activities and policy directions. Three (3) are independent directors who are capable of taking an independent stand to protect the interest of its shareholders and stakeholders.

In view of the complexity of the tasks of governance, the BOD created various committees for monitoring, directing and supporting the affairs/activities of the Bank. These committees include the following:

- Audit Committee
- Bids and Awards Committee
- Corporate Governance Committee
- Compensation Committee
- Executive Committee
- IT Committee
- Loan Committee
- Risk Management Committee
- Trust Committee

Directors are also required to attend regular committee meetings in addition to Board meetings. Committee memberships are assigned based on proficiency and requirements of each committee. Prior to Board meetings, all Directors are provided with documents on committee activities/agenda, developments, institutional and financial performance, and other relevant information for their perusal and approval. In consideration of their valuable contributions, they are entitled to remuneration such as per diem.

The Board ensures that returns to the shareholders on their investments are maximized keeping in mind that all decisions and actions are within the purview

of applicable laws and regulations and the rightful interests of all the stakeholders. They guarantee that related party transactions, internal dealings and external transactions are conducted on an arm's length basis.

The BOD adheres to the principles of corporate governance initially set forth by the SEC and BSP. The BOD ensures that dealings of the Bank with customers are conducted with high standards of integrity driven by deliberate will for excellence as the Bank's reputation is its most valuable asset.

The Board takes the lead in establishing the "tone at the top" and approving corporate values for itself, senior management and other employees. Directors are expected to carry out their duties in a lawful manner and ensure that the Bank conducts its business in accordance with the law and its charter.

Senior Management

The Bank is run by seasoned professional bankers with competencies in banking operations gained mostly from universal and commercial banks.

The Bank's Senior Management led by Atty. Lamberto R. Villena is committed to provide sustainable growth and development, challenging work opportunities and performance. To maintain a strong workforce, trainings are conducted in the areas of leadership, compliance, money laundering prevention, internal controls, security, products and services, and Bank's core values.

Its Senior Management is also composed of Group Heads with rank of Executive Vice-President namely, Ralph B. Cadiz, Benson J. Hari-Ong and Cecilio Paul D. San Pedro; Senior Vice- Presidents namely Dalisay N. Rubio and Alfredo S. Vitangcol, Jr.; First Vice Presidents namely Isabel Y. San Pablo, Wilfredo Perry B. Morales, and Vice-President Michelle Ohrella G. Oira. They serve as additional professionals in Senior Management in terms of controllership, information technology, consumer lending, compliance and risk management.

To institutionalize the Bank's ethical standards, the Bank adheres to strict implementation of its Code of Conduct through its Human Resources Group and Discipline Ethics and Values Committee (DEVCOM).

Independent Check and Balance Consumer Protection

The Board of Directors created Corporate Governance, Audit and Risk Management committees to ensure independence and fairness in the Bank's decision making and operations. These committees are composed of members of the Board of Directors, at least two (2) of whom are independent directors.

These committees serve as an oversight on management and on the Bank's over-all operations with direct reporting line to the Board of Directors.

Also, Sterling Bank of Asia is subjected to external audit on the proper observance of its processes and operations by its third party auditor, SyCip Gorres Velayo & Co. (SGV & Co.) aside from an annual audit conducted by its regulators.

Remuneration

Consistent with its culture and strategy, Sterling Bank of Asia offers an industry based salary grade. High quality employees capable of achieving performance targets are assessed based on their key results areas and over-all individual performance.

This is consistent with the Bank's objective by spending its remuneration resource wisely and effectively to attract and retain talented employees.

The Bank aims to engage its employees with long term opportunities and hone them to deliver service excellence. In relation to this, employees are encouraged to provide their feedback on management through Employee Engagement Survey and Leadership Survey that will increase the appreciation on the Bank's stakeholders. Results of the survey are incorporated in the employees' Key Result Area (KRA) assessment and evaluation.

Related Party Transaction

Related party transactions, internal dealings and external transactions are conducted on arm's length basis in accordance with the regulations with proper approval and disclosure to regulatory entities.

These transactions are elevated to the Board for independent review and approval. To avoid conflict of interest, involved parties do not participate in deliberation.

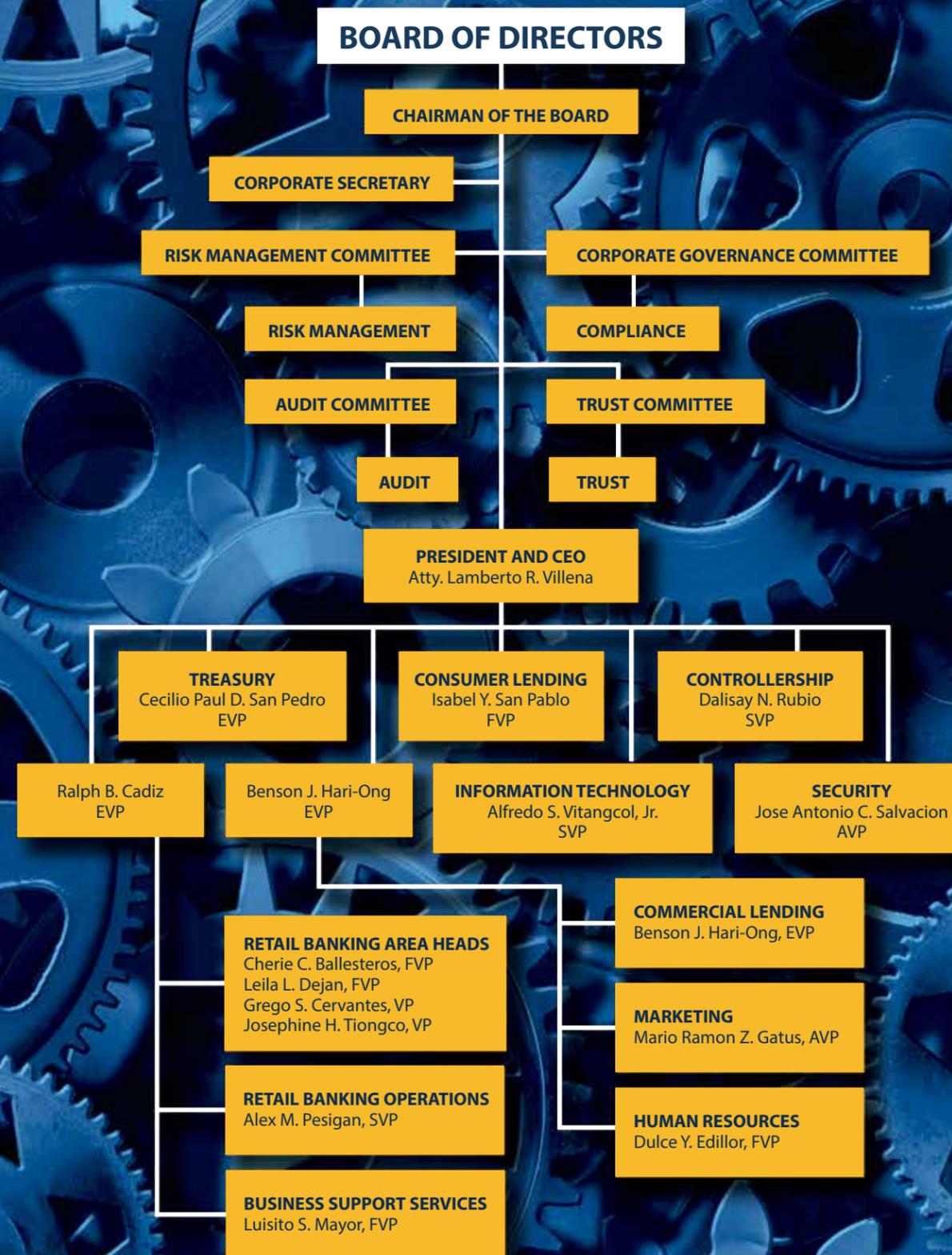
Note: Refer to 2013 Audited Financial Statement pp. 121-124

Sterling Bank of Asia recognizes the consumer protection laws and is committed to help build consumer confidence among its clientele. This enhances the relationship between the Bank and its clients and for this reason, the Bank adheres to its consumer protection policies.

To improve our services and enhance the Bank's reputation among external stakeholders, the Bank created Customer Service Management to provide for a mechanism to handle client concerns and customer complaints. The Bank ensures that guidelines and procedures are in place to address customer complaints and that investigation is initiated as required.

The Bank likewise ensures that the implementation of its electronic banking activities are in compliance with the requirements to safeguard customer information, prevention of money laundering, reduction of fraud and theft of customer information and promotion of legal enforceability of the Bank's agreements and transactions.

Organizational Structure



Risk Management Philosophy

Risk Management Framework

Sterling Bank's philosophy is to manage enterprise-wide risks by ensuring that business thrusts focus on long term shareholder value with bank activities that are aligned with the Board approved Strategic Plans and supported by risk and capital management mechanisms to ensure that business objectives are attained without exposing the Bank to undue risks.

The Bank's risk management framework places emphasis on the establishment of a risk sensitive culture with accountability for risk shared across the organization, avoidance of excessive risk concentrations, ensuring that risks are well understood and adequately assessed, properly approved within the framework of delegated authorities, regularly measured and monitored and actively managed, striking a balance between risks and reward. Integral to the Bank's risk management framework is a system of limits that sets out parameters as to the amount of risk the Bank is willing to take in pursuit of its strategic and financial objectives. This is complemented by established policies that provide guidance on risk taking activities and stress testing exercises that provide mechanisms to ensure the Bank's capacity to absorb risks both under normal circumstances and under stressed scenarios.

The Bank's Policies and Procedures set out the framework for the management of credit, market, liquidity and operational risks. These are regularly reviewed and updated to adapt to changing risk conditions and reflect the Bank's risk appetite and tolerance. Risk Assessment and Mitigation mechanisms are applied to both existing business operations and product development initiatives to ensure that risks are properly identified, sufficiently mitigated, and that residual risks are within risk tolerance thresholds and properly monitored.

Risk Governance

The Bank has an established governance structure that ascertains oversight and accountability for the management of risk across the enterprise. Various Board and Management level committees are in place to regularly monitor and manage various risk areas to which the Bank is exposed to.

The Bank's Board of Directors (BOD) has overall responsibility for the oversight of the Bank's risk management process. It is supported by various BOD committees, which are responsible for developing, managing and monitoring risk management policies in their specified areas.

Executive Committee (EXCOM). The EXCOM assists the Board in the general supervision, administration and management of bank affairs and is thus actively engaged in overseeing the development and execution of the Bank's business strategies.

Risk Management Committee (RMC). The RMC is responsible for developing the Bank's risk strategy and the supporting risk management policies and procedures, ensuring the soundness of risk management practices in relation to the risks faced by the Bank.

Audit Committee (AC). The AC is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of risk management framework in relation to the risks faced by the Bank. The AC is assisted in these functions by Internal Audit (IA). IA undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

IT Committee (ITCOM). The ITCOM oversees the development of the Bank's Information Technology Systems and infrastructure. It ensures that systems are embedded with multi-layered controls in order to protect bank information and technical infrastructure.

Corporate Governance Committee assists the Board in fulfilling its corporate governance responsibilities.

Loan Committee (LOANCOM). The LOANCOM manages credit risk within the lending portfolio and monitors Lending Units' activities to ensure that it is carried out in a manner consistent with Board approved strategic plans and objectives. It reviews the effectiveness of credit management systems, policies and processes for measuring, monitoring and controlling risk exposures.

Bids and Awards Committee (BAC). The BAC oversees the Bank's procurement processes and the implementation of procurement contracts as part of the Bank's operational risk management and ensuring transparency and good governance in the process.

Compensation Committee (COMPCOM). The COMPCOM reviews, screens and approves management recommendation on compensation and other Human Resource related matters.

Trust Committee (TRUSTCOM). The TRUSTCOM is responsible for overseeing the investment activities of the Bank's Trust unit.

Various management committees likewise monitor and evaluate risk at the management level.





Senior Management Committee (SMC). The SMC exercises general supervision, administration and management of the Bank's operations and as such oversees the operational and strategic risk management.

Credit Committee (CRECOM). The CRECOM is the management level committee that evaluates and screens all credit proposals requiring the approval of the President, Loancom or Board and likewise monitors credit underwriting activities done at management level. It ensures that credit risk is within the Board set risk tolerance levels and that proposals comply with the credit underwriting standards as set in the Bank's policies and procedures.

Asset-Liability Committee (ALCO). The ALCO is responsible for ensuring that the Bank and all its legal vehicles maintain adequate liquidity, sufficient capital and the appropriate funding to meet all business requirements and comply with all regulatory requirements. It is also responsible for building a stable funding structure by managing the long-term profiles of the Bank's asset and liability maturities. Moreover, it manages the statement of financial position and ensures that strategies are in accordance with adequate liquidity, capital and diversified funding and establishes asset-liability pricing policies consistent with the Bank's strategies.

Discipline Ethics and Values Committee (DEVCOM). The DEVCOM ensures that bank standards and code of conduct is adhered to and exercises disciplinary powers on infringement of the rules governing banking activities. As part of the Bank's operational and reputational risk management, the Bank espouses all its personnel adhere to the code of conduct and perform their fiduciary responsibility consistent with the Bank's vision and core values.

Business units meanwhile are responsible and accountable for managing the risks in their respective areas. Business units are in charge of the development and implementation of their business plans, ensuring that these are aligned with the Bank's overall strategic directions and objectives.

While the responsibility for managing risks is a shared responsibility at all levels of the organization, the risk management function resides principally with the Bank's Risk Management Group (RMG), which is independent of the business functions and is headed by the Chief Risk Officer who reports directly to the Risk Management Committee. RMG provides the necessary support to the RMC in the exercise of its risk oversight functions and performs daily market risk analyses to ensure compliance with the Bank's policies and procedures and makes recommendations based on such analyses. The RMG likewise monitors, supervises and controls the credit acceptance policies, the borrowing account ratings and portfolio development.

The organization adheres to the principle of separation between front, middle and back-office functions with department and units having clearly defined roles and systems for internal control and accountability. Decision-making, meanwhile, follows a delegation framework that provides approving authorities at various levels with larger and more complex transactions exposing the Bank to significant risks being reviewed and approved by Senior Management and/or the appropriate Board-constituted committees.

Risk Management

Capital Management

The Bank espouses capital management policies that support its business strategy and objectives. Capital Adequacy Ratio (CAR) for 2013 stood at 13.84% well above the 10% regulatory capital requirement.

Details of the capital adequacy ratio is shown below :

	December 31 (in Millions)		
	2013	2012	2011
Tier 1 Capital	1,716	1,662	1,562
Tier 2 Capital	682	689	236
Gross-Qualifying Capital	2,398	2,351	1,798
Less: Regulatory Deductions	23	36	21
Total Qualifying Capital	2,375	2,315	1,777
Credit Risk Weighted Assets	14,664	15,258	13,603
Market Risk Weighted Assets	1,337	618	-
Operational Risk Weighted Assets	1,164	471	-
Total Risk Weighted Assets	17,165	16,347	13,603
Tier 1 Capital Ratio	9.86%	9.95%	11.33%
Total Capital Adequacy Ratio	13.84%	14.16%	13.07%

Note that SBA is covered by Basel 1.5 framework, as outlined in Circular No. 688 dated 26 May 2010 which took effect on 1 January 2012.

The components of Tier 1 Capital are as follow:

	December 31 (in Millions)		
	2013	2012	2011
Total Tier 1 Capital			
Paid-up common stock	1,625	1,625	1,500
Additional paid in capital	0	0	0
Retained earnings	62	45	-53
Undivided profits	43	17	115
Cumulative foreign currency translation	-14	-25	0
Minority interest in subsidiary financial allied undertakings	0	0	0
Sub-total	1,716	1,662	1,562
less deductions:			
Unsecured DOSRI credit accommodations	2	15	0
Deferred tax assets	21	21	21
Goodwill	0	0	0
Total deductions from Tier 1 Capital	23	36	21
Total qualifying Tier 1 Capital	1,693	1,626	1,541

Tier 2 Capital comprise of the following:

Total Tier 2 Capital	December 31 (in Millions)		
	2013	2012	2011
Preferred Stock	63	63	0
General Loan Loss Provision	122	129	111
Deposit for common stock subscription	0	0	125
Unsecured subordinated debt	498	498	0
Total qualifying Tier 2 capital	682	689	236

The Bank does not have any investments referred to in BSP Circular 688 that will require deduction from Tier 1 (50%) and Tier 2 (50%) capital.

Risk weighted assets by type of exposure as of December 31, 2013, December 31, 2012, and December 31, 2011 are as follows:

	Credit Risk			Market Risk		
	2013	2012	2011	2013	2012	2011
On-Balance Sheet	14,597	15,216	13,603	-	-	-
Off-Balance Sheet	67	42	-	-	-	-
Counterparty (Trading/Banking)	-	-	-	-	-	-
Interest Rate Exposure	-	-	-	1,211	303	-
Foreign Exchange	-	-	-	126	315	-
Operational Risk-Weighted Assets	-	-	-	-	-	-
Total	14,664	15,258	13,603	1,337	618	-
Capital Requirements	1,466	1,526	1,360	134	62	-

	Operational Risk		
	2013	2012	2011
On-Balance Sheet	-	-	-
Off-Balance Sheet	-	-	-
Counterparty (Trading/Banking)	-	-	-
Interest Rate Exposure	-	-	-
Foreign Exchange	-	-	-
Operational Risk-Weighted Assets	1,164	471	-
Total	1,164	471	-
Capital Requirements	116	47	-

Credit risk account for bulk of the Bank's risk exposure arising from its lending, trade financing and treasury activities.

Capital requirement for credit risk is determined using standardized approach.

CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations. The Bank's credit risk exposure arise largely from its lending, trade finance and investment activities.

The Bank's credit risk management system aims to achieve a balanced portfolio, with clear set of risk parameters for credit underwriting so as to ensure that credit and loan originations are consistent with Bank's risk appetite.

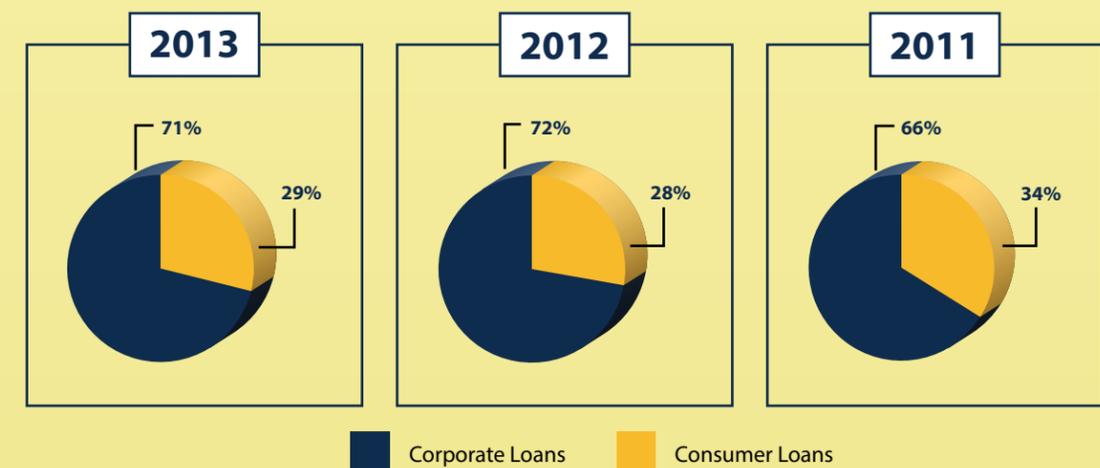
Credit Risk Weighted Assets	
0% Risk Weight	Amount
Cash on hand	603
Due from BSP	2,738
Available for sale financial assets	1,874
Unquoted debt securities	774
Loans to the extent covered by hold-out	1,691
Loans to the extent covered by Marginal Deposits	3
Loans to the extent guaranteed by HGC	387
	8,070
20% Risk Weight	
Checks and other cash items	2
Claims guaranteed by foreign incorporated banks	51
Claims on Philippine Incorporated private enterprise	336
Claims guaranteed by foreign incorporated private enterprise	228
Total Subject to 20% Risk Weight	617
50% Risk Weight	
Loans to individual for housing purposes	1,516
	758
75% Risk Weight	
Qualified MSME loans	5,678
	4,259
100% Risk Weight	
Foreign currency denominated at 67%	179
NPL to individuals for housing purposes	26
Other assets	8,040
	8,040
150% Risk Weight	
All NPL except NPL individual for housing purposes	753
Real and other properties acquired at 1.30%	109
	142
Risk-weighted of On Balance Sheet	14,597
Risk-weighted of Off Balance Sheet	67
Total Credit Risk	14,664

Risk Management Mechanisms	10-tiered Credit Risk Rating System
	Classification of credits
	Concentration by industry with risk classification, large exposures, loan tenor, collateral cover, investment counterparty exposures
	Impairment loss estimation
	Stress testing
Risk Control & Monitoring Tools	Central Liability System
	Limits: <ul style="list-style-type: none"> • Single Borrowers' Limit (SBL) • Group Exposures • Industry Exposures • Counterparty Limits
	Loan provisioning
	Herfindahl Hirschman Index (HHI)
	PD & ITL impact on CAR
Risk Reporting & Business Management	Annual updates on account risk rating
	Monthly credit risk profiling / management report to the RMC
	Weekly PD & ITL status reporting

As a savings bank catering largely to the middle market segment, credit risk comprise bulk of the Bank's risk exposure. The Bank manages credit risk through an established risk control framework that provides for policies, and guidelines to the business units together with a system of limits reflective of the Bank's risk tolerance and capacity. A monitoring mechanism is also in place to ensure that exposures to individual counterparties, related accounts, countries, and industries are within Board approved limits and that credit concentration is within acceptable levels. Credit risk profile are regularly reported to senior management and to the Board thru the Risk Management Committee.

While the Credit Risk Control Department of RMG provides for an independent risk monitoring and control of credit exposures, each business unit is responsible for the quality and performance of its credit portfolio. As the first line of defence, business units are responsible for monitoring and controlling the credit risks in its portfolio. The Credit Risk Control Department, meanwhile, provide for an independent evaluation of the Bank's credit risk exposure via reviews of loan proposals and credit processes, borrower risk assessments, and credit administration. This is complemented by regular audits of business units and credit processes undertaken by Internal Audit that provide for assurance and feedback mechanisms to determine sufficiency and effectiveness of established risk controls.

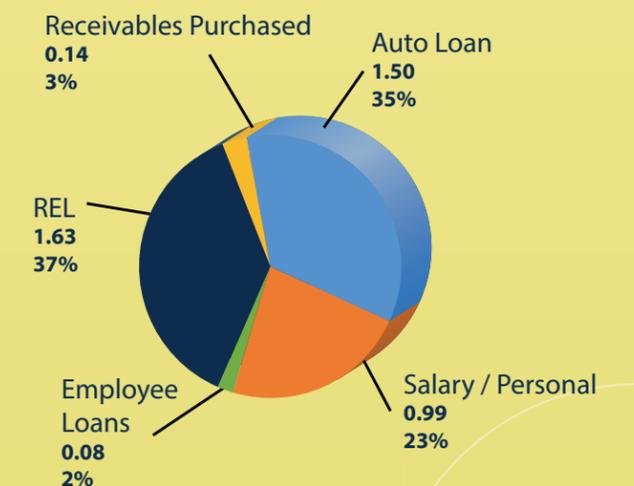
Credit exposures are largely accounted for by the Bank's commercial and consumer loan portfolio which for 2013 stood at P11.02 Billion and P4.20 Billion, respectively. Commercial lending caters largely to the middle market segment providing business loans to small and medium enterprises. Consumer lending meanwhile provides consumption loans in the form of personal and salary loans, auto loans and real estate financing.



	2013	2012	2011
Corporate Loans	P11.020 Billion	P10.066 Billion	P8.364 Billion
Consumer Loans	P4.198 Billion	P4.112 Billion	P4.580 Billion

Consumer lending portfolio is comprised largely of asset backed financing in the form of auto and real estate loans comprising 35% and 37% of the consumer loan portfolio, respectively. Consumer loans are subjected to a credit underwriting process that provides for lending parameters based on a set of borrower attributes. The Bank makes use of a combination of customer-centric and product-based approach in its retail lending operations. Credit acceptance criteria is subjected to validation and review on a regular basis. Consumer loan portfolio is monitored on a monthly basis to identify trends in terms of portfolio quality and trigger appropriate bank response in order to maintain desired credit quality.

Consumer Loan Portfolio (in Million Pesos)

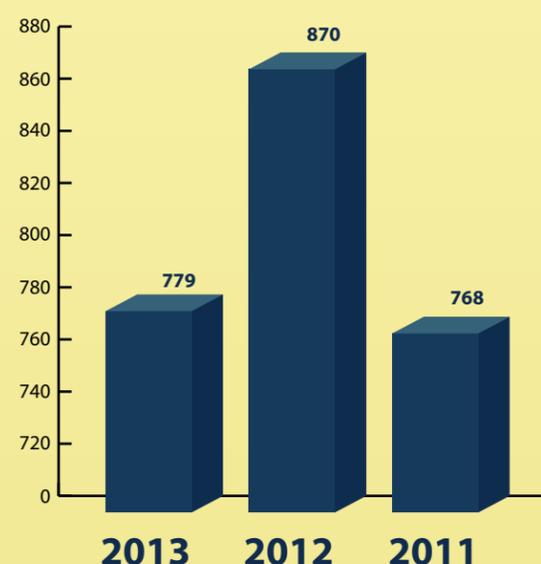


Commercial lending portfolio is comprised largely of short term working capital loans for small and medium enterprises. Commercial credit decisions are based on an evaluation of borrower's creditworthiness. The bank makes use of an Internal Credit Risk Rating System (ICRRS) which stratifies the portfolio composition between High Grade, Standard Grade and Impaired categories. This facilitates management to focus on major potential risk and the comparison of credit exposures across various lines of business, demographics and products. The rating system has two parts, namely, the borrower's risk rating and the facility risk rating. It is supported by a variety of financial analytics, combined with an assessment of management, market and industry specific information to provide the main inputs for the measurement of credit risk. Credit ratings are assigned at time of loan approval for big ticket items and post approval for management level approvals, subject to updating and re-evaluation annually or as necessary driven by economic, industry or borrower specific changes.

Risk Rating	Classification	Credit Quality
1	Excellent	High Grade
2	Strong	High Grade
3	Good	High Grade
4	Satisfactory	Standard Grade
5	Acceptable	Standard Grade
6	Weak	Standard Grade
7	Poor	Impaired
8	Substandard	Impaired
9	Doubtful	Impaired
10	Loss	Impaired

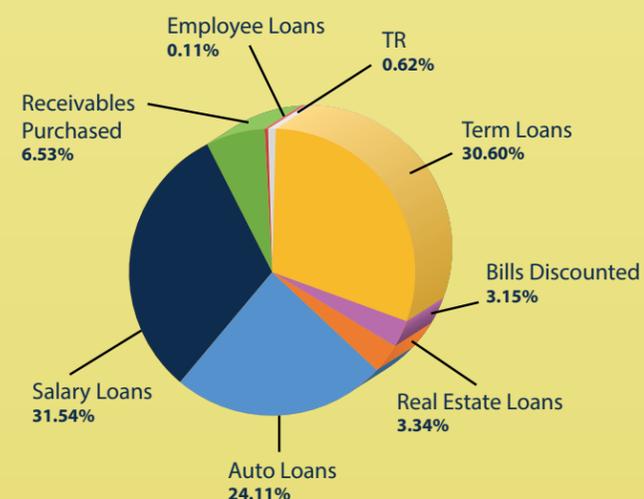
Individual credit exposures are monitored by both business line units and RMG for signs of deterioration as part of active credit risk management. Remedial management measures are undertaken whenever borrower accounts exhibit signs of distress and heightened probability of default.

Total NPLs (in Million Pesos)



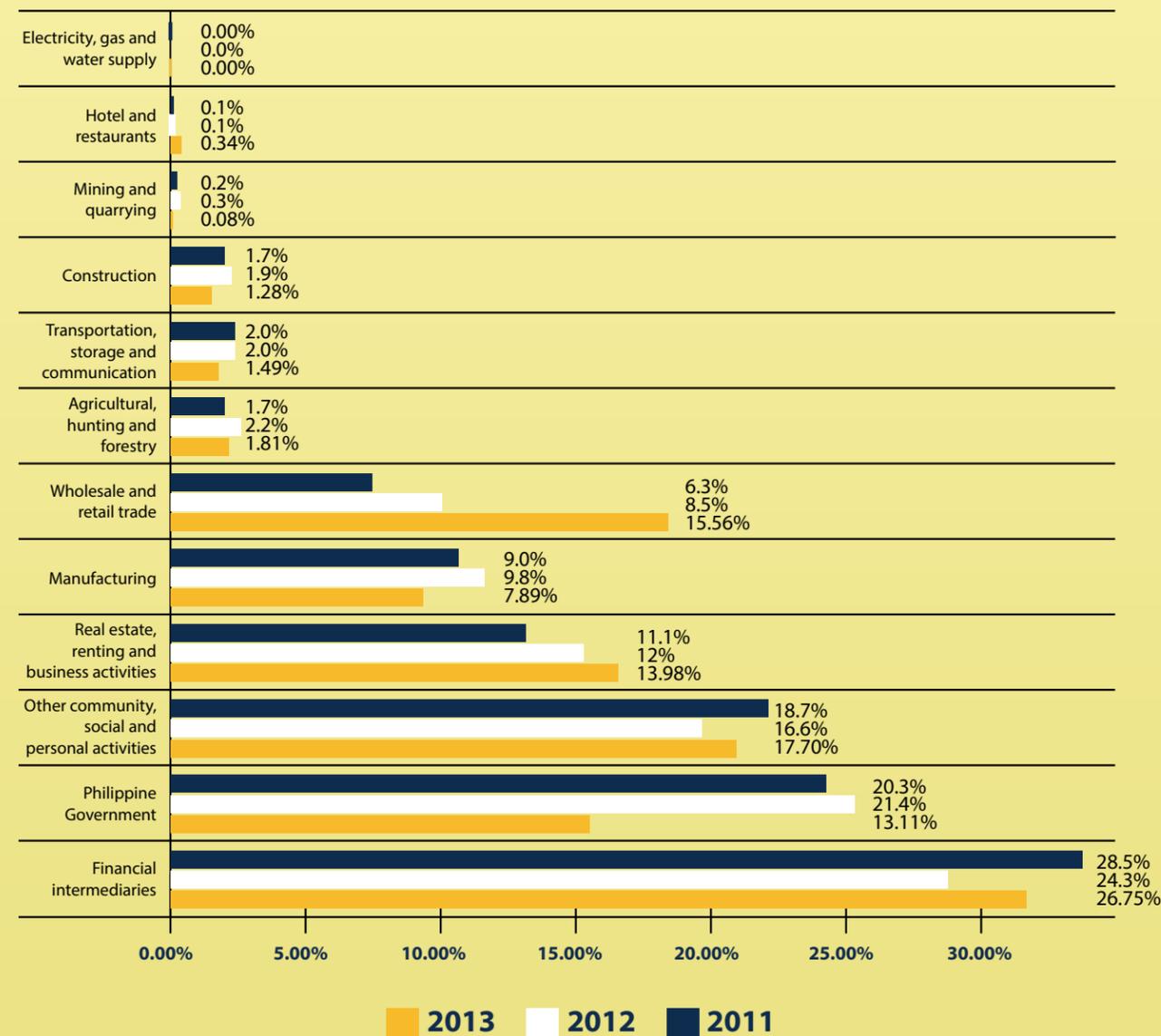
Gross non-performing loans for 2013 stood at P779 Million, down by 10.5% over prior year's level. It is comprised largely of past dues from the consumer lending portfolio with salary loans and auto loans accounting for 31.54% and 24.11% of total NPL, respectively. Non-performing business loans meanwhile account for 30% of NPL. Gross NPL ratio (exclusive of interbank loans) meanwhile stood at 5.03% which was well below the 5.45% industry average for thrift banks.

NPL Breakdown



Risk concentration limits are in place to manage the credit portfolio and achieve diversification of risk assets. These limits are approved by the Bank's Risk Management Committee (RMC) and subject to annual reviews to account for changes in the Bank's operating environment and business thrusts. Industry distribution of credit portfolio below shows a diversification across industries with overweight on wholesale and retail trade, financial intermediaries, community, social and personal activities as well as the real estate and manufacturing sectors.

Concentration of Credit Risk Exposure of Financial Assets

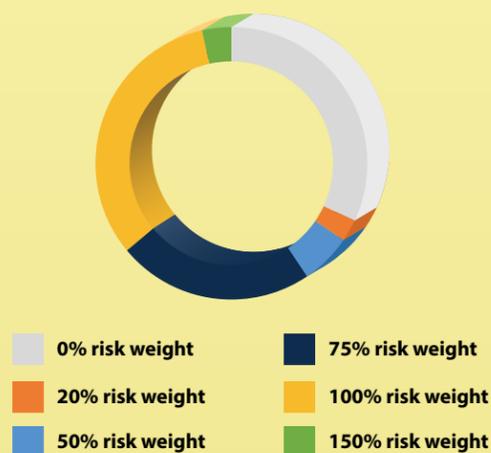


Meanwhile, credit risk in the traded portfolio is managed via monitoring of prices of securities which provide for indicator of credit risk premium priced by the market.

The Bank employs various credit risk mitigation techniques such as netting and collateralization. Traded portfolio counterparty risk is reduced by netting agreements which provide for single net settlement for all exposures covered by the agreement.

Meanwhile, credit exposures in the commercial and consumer lending operations is mitigated by acceptance of collaterals which provide for second way out in case of defaults. Collateral comes in the form of financial or non-financial assets. The main types of collateral obtained include cash or securities, charges over real estate or chattel properties, inventory and trade receivables and mortgages over residential properties. The Bank also obtains guarantees from company principals as well as from parent companies for loans of borrowing entities belonging to a group of companies. Meanwhile, Consumer Lending Group's asset based lending via auto and real estate financing automatically provides security by way of mortgage on the underlying asset being financed. For 2013, fair value of collaterals held for unimpaired loans and receivables amount to P6.77 Billion of which 76% is comprised of properties and 24% of deposits, this represent an improvement from yearago figures which stood at P5.35 Billion with a 68% properties and 32% deposit mix.

Profile of On-Balance Sheet items



Capital for credit risk is accounted for using the standardized approach. As of December 31, 2013, credit risk exposures account for 85.4% of risk weighted assets (RWA). On-Balance sheet items took up P14.6 Billion of credit risk weighted assets while the remaining P67 Million represent off-balance sheet items. In 2012, credit risk accounted for a higher 93% of risk weighted assets. Meanwhile, for 2011 Risk Weighted Assets (RWA) is comprised solely of credit RWA amounting to P13.6 Billion given that the Bank was subject then to Basel I regulations.

MARKET AND INTEREST RATE RISK

Market risk is the risk of loss to future earnings, fair values or future cash flows as a result of changes in interest rates, foreign exchange rates, commodity prices, equity prices and other market changes. The Bank's market risk originates from its investment portfolio. The bank has set-up its investment portfolio to meet liquidity and statutory reserve requirements as well as pursue trading opportunities. These investment portfolios expose the Bank to interest rate, foreign currency and credit spread risks.

Interest rate risk is the risk of loss due to changes in the yield curve and the volatility of interest rates.

Foreign currency risk is the risk of loss due to changes in spot and forward prices, and the volatility of currency exchange rates.

Credit spread risk is the risk of loss due to changes in the market price of credit, or the creditworthiness of issuers.

The objective of the Bank's market risk management system is to be able to properly identify, measure, monitor and manage market risk exposures in order minimize earnings volatility and ensure adequate liquidity.

Risk Management Mechanisms	Concentration by type of investment, tenor, currency denomination	
	Stress testing	
	Sensitivity Analysis	
	Gap analysis	
Risk Control & Monitoring Tools	Review of new and existing investments and products	
	Limits: <ul style="list-style-type: none"> • Position Limit • Value at Risk (VaR) Limit • Alert levels (1 & 2) • Stop Loss Limit • Traders Limit • Earnings at Risk (EaR) limit 	
	Value at Risk (VaR) estimates	
	Marked to Market valuations	
	Interest rate gap	
	Exposure/position limits to, and duration limits on investment types/products, countries, and issuer	
	Monitoring of Off-Market transactions	
	Back testing to manage model risk	
	Risk Reporting & Business Management	Automated daily risk management reporting of limits and P&L to the President and other concerned parties
		Monthly Market Risk Management Reporting to risk-taking units, the President, ALCO and Board/RMC

The Bank's Asset and Liability Committee (ALCO), chaired by the Head of Treasury, is the senior review and decision-making body for the management of all related market risks. In managing market risk, the Bank uses a framework of policies and procedures, measurement tools, controls and limits. The Treasury Group is responsible for the Bank's market risk taking activities and manages asset/liability risks arising from both normal banking operations and from trading operations in financial markets within Board approved limits. Daily monitoring of compliance with the policies, procedures and limits is performed by the Market Risk Department under RMG. The limits are annually reviewed by the ALCO and RMG and approved by the RMC.

The Bank's market risk come in the form of price and foreign currency risk arising from its trading and investment activities mainly in the form of investments on fixed income securities and foreign exchange trading. While capital requirements for market risk exposures is determined using the standardized

approach, the Bank makes use of daily Value at Risk (VaR) analyses to measure its market risk exposure under normal conditions. This is complemented by stress testing and scenario analyses to determine the Bank's ability to withstand market shocks and adverse market conditions. Likewise control mechanisms such as exposure and loss limits are in place to ensure that risk taking activities are within the Bank's risk appetite. For 2013, market risk weighted assets stood at P1.34 Billion accounting for 7.8% of RWA, this is higher compared to prior year's P618 Million representing only 3.78% of RWA. Interest rate exposures in 2013 account for 90.6% of market risk weighted assets while foreign exchange exposures account for the remaining 9.4% a shift from the 49%-51% mix a year ago.

Interest rate risk in the Banking books form part of the Bank's balance sheet management. The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by means of Earnings-at-Risk (EaR) calculations performed on a monthly basis and subjected to quarterly stress testing.

The table below present results of sensitivity tests measuring impact on net interest income and equity of varying degrees of interest rate fluctuations (all other variables held constant):

	2013			
	Increase (Decrease) in Basis Points			
	50	100	(50)	(100)
Change in net interest income				
Loans and receivables	P4.51	P9.03	(P4.51)	(P9.03)
Deposit liabilities	(9.66)	(19.32)	(9.66)	19.32
As a percentage of the Bank's net interest income for the year	(1%)	(1%)	1%	1%
Change in equity*				
AFS investments	114.20	253.43	(196.94)	(367.88)

* The impact on the Bank's equity already excludes the impact on transactions affecting the statement of income.

LIQUIDITY RISK

Liquidity risk is the risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due.

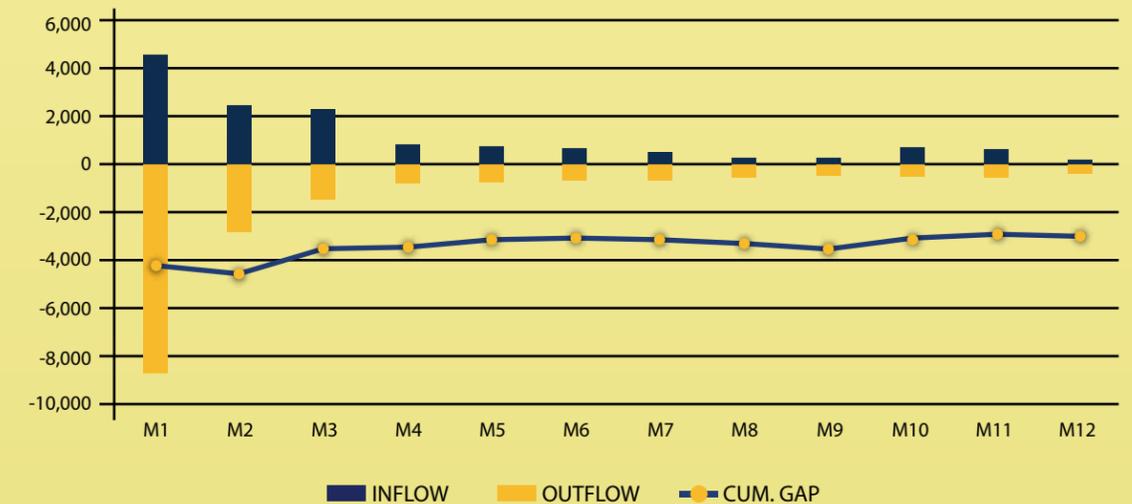
Risk Management Mechanisms	Concentration by type of investment, tenor, currency denomination;
	Stress testing
	Sensitivity Analysis
	Gap analysis
Risk Control & Monitoring Tools	Contingency Funding Plan
	Maximum Cumulative Outflow (MCO)
	Determining funding requirements
Risk Reporting & Business Management	Monitoring of financial liquidity ratios
	Weekly reporting of balance sheet profile to ALCO
	Monthly Liquidity Risk Management Reporting to Board/RMC

As any financial institution, liquidity risk management is of primary importance. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met.

ALCO is responsible for formulating the Bank's liquidity risk management policies, whereas the RMG is responsible for monitoring such risks. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios,

diversification of funding sources and contingency planning. The Bank utilizes a diverse range of sources of funds, although short-term deposits made with the Bank's network of domestic branches comprise the majority of such funding. The Bank's asset and liability profile is regularly monitored and evaluated to assess funding gaps and requirements. This is supplemented by quarterly stress testing exercises to determine impact on the Bank's liquidity position given various stress scenarios. These are taken into consideration in the Bank's Contingency Funding Plan.

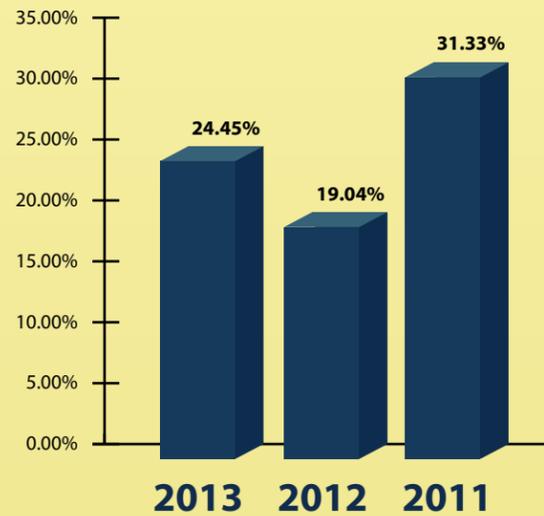
CONSOLIDATED MAXIMUM CUMULATIVE OUTFLOW



The Board and Senior Management set the liquidity risk tolerance of the Bank reflected by the Maximum Cumulative Outflow (MCO) Limit. This limit emphasizes the Bank's ability to immediately generate available funds in the market at a reasonable price.

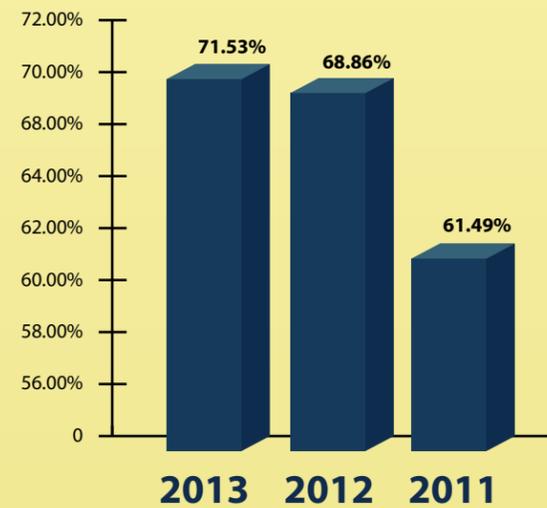
The Bank's treasury department uses liquidity forecast models that estimate the Bank's cash flow needs based on the Bank's actual contractual obligations and under normal and extraordinary circumstances. The RMG prepares a monthly MCO report, which is an analysis of maturity gaps of the Bank's assets and liabilities.

Liquidity Ratio



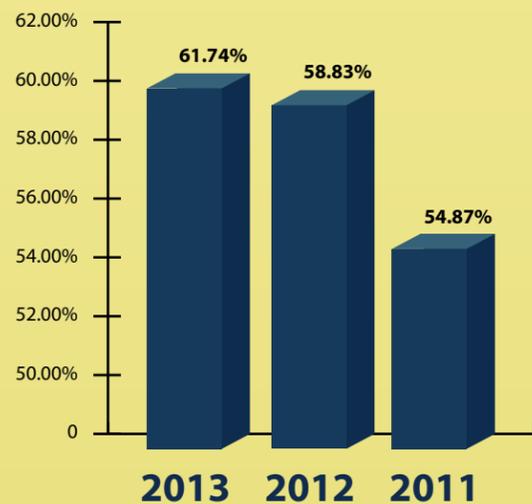
	2013	2012	2011
Liquid Assets	P5.570 Billion	P4.449 Billion	P7.484 Billion
Total Deposit	P22.778 Billion	P23.370 Billion	P23.890 Billion

Loans to Deposit Ratio



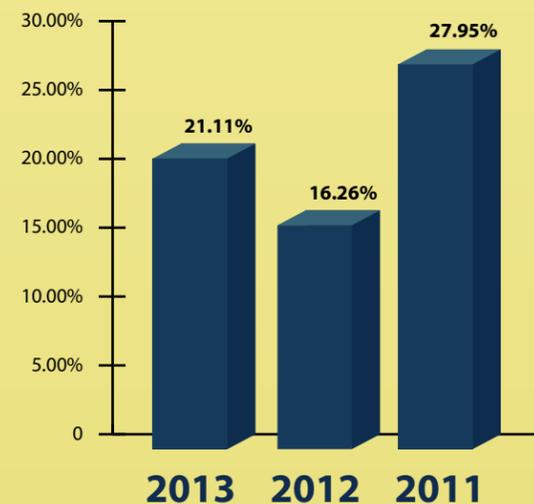
	2013	2012	2011
Loans - Net	P16.294 Billion	P16.092 Billion	P14.690 Billion
Total Deposit	P22.778 Billion	P23.370 Billion	P23.890 Billion

Loans to Asset Ratio



	2013	2012	2011
Loans - Net	P16.294 Billion	P16.092 Billion	P14.690 Billion
Total Assets	P26.390 Billion	P27.354 Billion	P26.775 Billion

Liquid Assets to Total Assets



	2013	2012	2011
Liquid Assets	P5.570 Billion	P4.449 Billion	P7.484 Billion
Total Assets	P26.390 Billion	P27.354 Billion	P26.775 Billion

Apart from the MCO, RMG likewise monitors the Bank's liquidity ratios. Loan to deposit ratio for 2013 stood at 71.53%, liquidity ratio at 24.45% and loan to asset ratio at 61.74% all of which indicate to a healthy liquidity position.

OPERATIONAL RISK

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes losses due to internal and external fraud events, business disruption and systems failure, damage to physical assets, execution, delivery and process management failures, weaknesses in products and business practices as well as employment practices and workplace safety.

Risk Management Mechanisms	Four lines of defence
	Operational Loss Database Maintenance
	Risk Control and Self-Assessment with concentration on established high-risk functions/units
Risk Control & Monitoring Tools	Product risk assessments
	Regular Risk Control and Self-Assessment
	Loss Event Reporting
	Key Risk Indicators
Risk Reporting & Business Management	Risk Mapping
	Business Continuity Planning
	Incident Reports
	Corrective Action Tracking
	ORM reports to the RMC
	Close coordination with Internal Audit and IT

The Bank has consistently taken measures to strengthen its Operational Risk Management program. Its adoption of the four lines of defence provides for a multi-layered mechanism to ensure sufficiency of operational risk controls.

First Line of Defence	Front Line Business Units
Second Line of Defence	Back-office Controls
Third Line of Defence	Risk Management Group independent monitoring
Fourth Line of Defence	Internal Audit checks

The Bank adheres to the principle of separation between front, middle and back-office functions with department and units having clearly defined roles and systems for internal control and accountability. Business lines are responsible for ensuring that operational risk controls are embedded in their business processes. The Retail Banking Group being the group with the widest scope as it is in charge of the Bank's branch network have put in place Quality Assurance Officers to provide operational support. The bank's Business Support Services Group (BSSG) serves as the back-office where transaction processing takes place. Meanwhile, the Risk Management Group (RMG), which performs middle office function conducts independent monitoring. Review of significant operations and processes are performed to identify and assess operational risks. This provides for a mechanism to evaluate key risks and sufficiency of controls. Meanwhile, this is validated by IA which checks on implementation of established controls and an assurance mechanism that operational risk management system is functioning effectively.

Among the key components of Sterling Bank's Operational Risk Management Program are the identification of operational losses and risk concentrations, the build-up of historical Loss Database, and the link-up with the Risk Control Self-Assessment program, to fully disseminate awareness of operational risk areas and processes, with a view towards improving fraud, risk monitoring and control. These coupled with policies and operational guidelines which institutionalize controls serve to support business systems and processes.

The Bank's Business Continuity Management Program is another key component of the Bank's

operational risk management system. It serves to provide for mechanisms to ensure the Bank's resiliency and allow it to operate business as usual in the event of business disruptions. The BCP is subjected to periodic testing.

Capital charge for operational risk is accounted for using the basic indicator approach. For 2013, operational risk weighted assets stood at P1.16 Billion accounting for 6.78% of total risk weighted assets. Capital charge of P116 Million is deemed conservative given lower operational losses based on record of actual losses which for 2013 stood at a mere P3.16 Million comprising largely of Type VII Basel loss events (Execution, Delivery, and Process Management).

COMPLIANCE RISK

Compliance Risk is the risk of loss arising from violations and non-conformance with rules, regulations and laws.

To address and manage this risk, the Bank has put in place a Compliance Program which is implemented by the Compliance Office and includes identification of relevant laws and regulations and compliance risk testing of business units.

Risk Management Mechanisms	Compliance Program
	Review of Bank contracts and transactions
Risk Control & Monitoring Tools	Compliance Testing
	Information Dissemination e.g. BSP Circulars, Manual of Regulations for Banks, BIR and AMLC regulations distributed to concerned units
	Trainings and Seminars
	Regular Assessment of Compliance Program
	Monitoring of Fines and Penalties (Actual and Probable)
Risk Reporting & Business Management	Regular reporting and update of regulatory concerns to SMC and Board/Excom

Capital charge for compliance risk form part of operational risk capital charge.

STRATEGIC RISK

Strategic Risk is the potential risk to earnings and capital of inappropriate business decisions and implementation and/or inability to adequately respond to changing business environment.

Business plans are aligned with the Bank's strategic thrusts and directions as determined by the Board and Senior Management, with the associated risk assessments taken into consideration in the formulation of risk management strategies and determination of capital requirements. The bank manages strategic risk at all relevant levels in the organization with periodic review of actual performance versus set objectives being done by the Senior Management Committee and the Board/Excom.

Risk Management Mechanisms	Internal and External environmental scanning
	Strategic and Capital Planning
	Performance Management
	Commitment to good corporate governance as an integral part of strategic thrusts
Risk Control & Monitoring Tools	Impact assessment based on internal and external environmental scanning
	Performance Management System – Business Segment Management Performance Review
Risk Reporting & Business Management	Regular reporting and update of performance vs. objectives to SMC and Board/Excom

LEGAL RISK

Legal Risk arises due to uncertainty in the applicability or interpretation of contractual arrangements that the Bank utilizes to establish and protect its rights under laws, regulations, rules and codes of conduct applicable to its banking activities.

Legal risk is centrally managed by the Bank's Legal Group. It exercises a process that involves the identification, assessment, monitoring and mitigation of this type of risk to ensure that the Bank's objectives on the management of legal risk are being satisfied and complies with applicable regulatory requirements.

Proactive legal risk management is implemented through control structures such as Legal Office sign-off procedures, issuance of legal opinions and continuous training and awareness campaigns.

Capital Change for legal risk form part of operational risk capital charge.

Risk Management Mechanisms	Review of bank contract and transactions
Risk Control & Monitoring Tools	Trainings and seminars
	Sign-off procedures
	Legal opinions
	Legal documentation
Risk Reporting & Business Management	Reporting of legal issues to SMC and BOD/EXCOM

REPUTATIONAL RISK

Reputational risk is the risk of loss due to negative public perception of the Bank. Negative publicity on the Bank's conduct, business practices and/or associations, whether true or not, may adversely impact revenues, erode customer base, affect operations and result to legal suits and costly remediation measures.

As a financial institution with fiduciary responsibilities, keeping a good name and reputation is of utmost importance. As such, Sterling Bank from the Directors down to the employees adhere to the Bank's code of conduct and core values putting emphasis to delivering customer satisfaction and upholding ethical standards in all business transactions.

Recognizing that reputational risk concerns often is a result of operational or risk management control failures, the Bank has undertaken measures to strengthen operations and delivery of banking services to the public. Quality Assurance mechanisms are put in place particularly in front line processes with direct client interface. Proactive solicitation of customer feedback is being undertaken, results of which are incorporated in the semestral evaluation of Service Level Agreements. The Bank's 24-hour Customer Management hotline provides for mechanism to support client concerns and customer complaints.

Risk Management Mechanisms	Code of Conduct
	Know Your Customer (KYC) Program
	Media Relations
	Customer Feedback and Complaints Management
	Strengthened operational controls
Risk Control & Monitoring Tools	Media Scanning
	Proactive solicitation of customer feedback
	Customer Service Management for complaints and client concerns resolution
	Service Level Agreements (SLA)
Risk Reporting & Business Management	Client Survey Forms
	SLA reporting
	Management Reporting of significant issues
	Internal and external communication

Sterling Bank of Asia, Inc. (A Savings Bank) Financial Statements December 31, 2013 and 2012 and Independent Auditor's Report

COVER SHEET

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 SEC Registration Number

S	T	E	R	L	I	N	G	B	A	N	K	O	F	A	S	I	A	,	I	N	C	.	(A	S	a	
v	i	n	g	s	B	a	n	k)																		

(Company's Full Name)

S	t	e	r	l	i	n	g	B	a	n	k	C	o	r	p	o	r	a	t	e	C	e	n	t	e	r	O	r
t	i	g	a	s	A	v	e	n	u	e	,	G	r	e	e	n	h	i	l	l	s	,	S	a	n	J	u	a
n	C	i	t	y																								

(Business Address: No. Street City/Town/Province)

Atty. Lamberto R. Villena
(Contact Person)

535-6168
(Company Telephone Number)

1	2	3	1
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Month Day
(Calendar Year)

A A F S
(Form Type)

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Month Day
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
 Sterling Bank of Asia, Inc. (A Savings Bank)

Report on the Financial Statements

We have audited the accompanying financial statements of Sterling Bank of Asia, Inc. (A Savings Bank), which comprise the statements of financial position as at 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 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, 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 auditor's 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sterling Bank of Asia, Inc. (A Savings Bank) as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 31 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 the management of Sterling Bank of Asia, Inc. (A Savings Bank). The information has been subjected to the auditing procedures applied in our audit 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.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-2 (Group A),
February 4, 2013, valid until February 3, 2016
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225145, January 2, 2014, Makati City

March 25, 2014

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Sterling Bank of Asia, Inc. (A Savings Bank)
Sterling Bank Corporate Center
Ortigas Avenue, Greenhills
San Juan City

Report on the Financial Statements

We have audited the accompanying financial statements of Sterling Bank of Asia, Inc. (A Savings Bank), which comprise the statements of financial position as at 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 a summary of significant accounting policies and other explanatory information.

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, 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.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sterling Bank of Asia, Inc. (A Savings Bank) as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 31 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 the management of Sterling Bank Asia, Inc. (A Savings Bank). The information has been subjected to the auditing procedures applied in our audit 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.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-2 (Group A),
February 4, 2013, valid until February 3, 2016
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225145, January 2, 2014, Makati City

March 25, 2014

INDEPENDENT AUDITORS' REPORT TO ACCOMPANY INCOME TAX RETURN

The Board of Directors
Sterling Bank of Asia, Inc. (A Savings Bank)
Sterling Bank Corporate Center
Ortigas Avenue, Greenhills
San Juan City

We have audited the financial statements of Sterling Bank of Asia, Inc. (A Savings Bank) (the Bank) as at and for the year ended December 31, 2013, on which we have rendered the attached report dated March 25, 2014.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholder of the Bank.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-2 (Group A),
February 4, 2013, valid until February 3, 2016
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225145, January 2, 2014, Makati City

March 25, 2014

STERLING BANK OF ASIA, INC. (A Savings Bank)
STATEMENTS OF FINANCIAL POSITION

	December 31, 2013	December 31, (As restated - Note 2)	January 1, 2012 (As restated - Note 2)
ASSETS			
Cash and Other Cash Items	P607,079,022	P633,646,640	P591,123,145
Due from Bangko Sentral ng Pilipinas (Note 15)	2,737,379,105	2,029,551,219	1,912,501,244
Due from Other Banks	657,268,106	1,097,031,428	447,348,222
Interbank Loans Receivable and Securities Purchased Under Resale Agreements with the Bangko Sentral ng Pilipinas (Note 6)	11,464,989	295,177,246	1,933,909,546
Financial Assets at Fair Value through Profit or Loss (Note 7)	1,557,225,269	393,154,823	2,599,443,790
Available-for-Sale Investments (Note 8)	3,393,215,424	5,628,538,664	3,340,129,529
Held-to-Maturity Investments (Note 9)	121,203,117	112,624,394	120,828,253
Loans and Receivables (Notes 10 and 26)	16,293,969,025	16,092,325,686	14,690,401,164
Property and Equipment (Note 11)	552,486,235	604,445,652	631,521,867
Investment Properties (Note 12)	122,182,780	121,944,300	147,017,620
Branch Licenses (Note 13)	225,390,000	225,390,000	225,390,000
Other Assets (Note 14)	110,650,224	120,533,461	135,771,739
TOTAL ASSETS	P26,389,513,296	P27,354,363,513	P26,775,386,119
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit Liabilities (Note 15)			
Demand	P5,283,860,801	P4,474,492,504	P3,978,159,770
Savings	1,863,457,165	1,476,900,753	1,176,181,020
Time	15,631,067,177	17,418,808,461	18,735,806,015
	22,778,385,143	23,370,201,718	23,890,146,805
Manager's Check	117,380,937	60,842,543	78,024,579
Bills Payable (Note 16)	304,377,778	297,251,097	121,492,338
Accrued Interest, Taxes, and Other Expenses (Note 17)	212,459,107	223,890,591	227,068,509
Income Tax Payable (Note 24)	-	2,638,390	-
Unsecured Subordinated Debt (Note 18)	500,000,000	500,000,000	-
Deferred Tax Liabilities (Note 24)	24,623,290	18,924,080	21,713,528
Other Liabilities (Note 19)	789,798,413	953,229,197	903,397,124
TOTAL LIABILITIES	P24,727,024,668	P25,426,977,616	P25,241,842,883
EQUITY			
Common Stock (Note 25)	P1,625,000,000	P1,625,000,000	P1,500,000,000
Perpetual Preferred Stock (Note 25)	62,500,000	62,500,000	-
Retained Earnings	172,566,096	111,962,747	61,502,685
Net Unrealized Gains (Losses) on Available- for-Sale Investments (Note 8)	(182,974,269)	155,975,555	(156,607)
Cumulative Translation Adjustment	(14,104,047)	(20,942,573)	(16,824,956)
Remeasurement Loss on Defined Benefit lan (Notes 2 and 22)	(499,152)	(7,109,832)	(10,977,886)
TOTAL EQUITY	1,662,488,628	1,927,385,897	1,533,543,236
TOTAL LIABILITIES AND EQUITY	P26,389,513,296	P27,354,363,513	P26,775,386,119

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA, INC. (A Savings Bank)
STATEMENTS OF INCOME

	Years Ended December 31	
	2013	2012 (As restated - Note 2)
INTEREST INCOME		
Loans and receivables (Notes 10 and 26)	P1,255,030,941	P1,269,903,980
Investment securities (Notes 7, 8 and 9)	291,525,976	410,315,028
Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas (Note 6)	6,418,695	63,778,456
Deposits in banks and others (Note 14)	43,544,435	20,304,124
	1,596,520,047	1,764,301,588
INTEREST EXPENSE ON DEPOSIT LIABILITIES, BILLS PAYABLE AND OTHERS (Notes 15, 16 and 18)		
	757,480,103	897,467,507
NET INTEREST INCOME	839,039,944	866,834,081
Trading gains - net (Notes 5, 7 and 8)	545,058,370	375,292,054
Service charges, fees and commissions (Note 26)	132,978,480	155,753,004
Foreign exchange gains - net	18,047,047	27,624,025
Profit from assets sold or acquired - net (Notes 11, 12 and 14)	15,136,987	3,085,577
Miscellaneous	5,657,922	1,481,642
TOTAL OPERATING INCOME	1,555,918,750	1,430,070,383
Compensation and fringe benefits (Notes 22 and 26)	453,936,762	425,417,532
Taxes and licenses	205,541,701	188,476,597
Depreciation and amortization (Notes 11, 12 and 14)	151,265,517	152,139,092
Provision for credit and impairment losses (Notes 10 and 12)	122,746,279	78,011,138
Occupancy expenses (Note 21)	109,225,227	101,436,431
Entertainment, amusement and representation	71,065,409	65,215,953
Security, messengerial and janitorial	64,304,485	55,151,054
Insurance expense	49,060,285	51,198,143
Others (Note 23)	192,429,196	184,106,468
TOTAL OPERATING EXPENSES	1,419,574,861	1,301,152,408
INCOME BEFORE INCOME TAX	136,343,889	128,917,975
PROVISION FOR INCOME TAX (Note 24)	75,740,540	78,457,913
NET INCOME	P60,603,349	P50,460,062

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA, INC. (A Savings Bank)
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2013	2012 (As restated)
NET INCOME	₱60,603,349	₱50,460,062
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that may not be reclassified to profit or loss:		
Remeasurement gains on defined benefit plan (Notes 2 and 22)	6,610,680	3,868,054
Items that may be reclassified to profit or loss:		
Changes in net unrealized gains (losses) on available-for-sale investments during the year (Note 8)	(338,949,824)	156,132,162
Cumulative translation adjustment	6,838,526	(4,117,617)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	(325,500,618)	155,882,599
TOTAL COMPREHENSIVE INCOME (LOSS)	(₱264,897,269)	₱206,342,661

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA, INC. (A Savings Bank)
STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31, 2013 and 2012						
	Common Stock (Note 25)	Perpetual Preferred Stock (Note 25)	Retained Earnings	Net Unrealized Gains (Losses) on Available- for-Sale Investments (Note 8)	Cumulative Translation Adjustment	Remeasurement Gains (Losses) on defined benefit plan	Total Equity
Balance at January 1, 2013, as previously reported	₱1,625,000,000	₱62,500,000	₱134,398,663	₱155,975,555	(₱20,942,573)	₱-	₱1,956,931,645
Effect of adoption of PAS 19R (Note 2)	-	-	(22,435,916)	-	-	(7,109,832)	(29,545,748)
Balance at January 1, 2013, as restated	1,625,000,000	62,500,000	111,962,747	155,975,555	(20,942,573)	(7,109,832)	1,927,385,897
Total comprehensive income (loss)	-	-	60,603,349	(338,949,824)	6,838,526	6,610,680	(264,897,269)
Balance at December 31, 2013	₱1,625,000,000	₱62,500,000	₱172,566,096	(₱182,974,269)	(₱14,104,047)	(₱499,152)	₱1,662,488,628
Balance at January 1, 2012, as previously reported	₱1,500,000,000	₱-	₱87,824,050	(₱156,607)	(₱16,824,956)	₱-	₱1,570,842,487
Effect of adoption of PAS 19R (Note 2)	-	-	(26,321,365)	-	-	(10,977,886)	(37,299,251)
Balance at January 1, 2012, as restated	1,500,000,000	-	61,502,685	(156,607)	(16,824,956)	(10,977,886)	1,533,543,236
Issuance of capital stock	125,000,000	62,500,000	-	-	-	-	187,500,000
Total	1,625,000,000	62,500,000	61,502,685	(156,607)	(16,824,956)	(10,977,886)	1,721,043,236
Total comprehensive income (loss), as previously reported	-	-	46,574,613	156,132,162	(4,117,617)	-	198,589,158
Effect of adoption of PAS 19R (Note 2)	-	-	3,885,449	-	-	3,868,054	7,753,503
Total comprehensive income (loss), as restated	-	-	50,460,062	156,132,162	(4,117,617)	3,868,054	206,342,661
Balances at December 31, 2012, as restated	₱1,625,000,000	₱62,500,000	₱111,962,747	₱155,975,555	(₱20,942,573)	(₱7,109,832)	₱1,927,385,897

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA, INC. (A Savings Bank)
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2013	2012 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱136,343,889	₱128,917,975
Adjustments for:		
Depreciation and amortization (Notes 11, 12 and 14)	151,265,517	152,139,092
Provision for credit and impairment losses (Notes 10 and 12)	122,746,279	78,011,138
Amortization of premium on held-to-maturity investments (Note 9)	(1,226,502)	1,786,859
Profit from assets sold or acquired (Notes 11, 12 and 14)	(15,136,987)	(3,085,577)
Mark-to-market loss on financial assets at fair value through profit or loss (Note 7)	86,392,399	4,425,743
Gain on sale of available-for-sale investments (Note 8)	(225,931,172)	(207,307,450)
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Financial assets at fair value through profit or loss	(1,250,462,845)	2,201,863,224
Loans and receivables	(441,810,042)	(1,602,882,426)
Other assets	314,676	(17,377,324)
Increase (decrease) in the amounts of:		
Deposit liabilities	(591,816,575)	(519,945,087)
Manager's checks	56,538,394	(17,182,036)
Accrued interest, taxes and other expenses	(18,042,164)	690,136
Other liabilities	(163,430,784)	174,832,073
Net cash generated from (used in) operations	(2,154,255,917)	374,886,340
Income taxes paid	(59,729,479)	(69,684,809)
Net cash provided by (used in) operating activities	(2,213,985,396)	305,201,531
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale investments	(8,336,744,568)	(11,455,629,888)
Property and equipment (Note 11)	(95,139,793)	(122,660,753)
Proceeds from:		
Sale of available-for-sale investments	10,459,049,156	9,533,669,922
Disposal of investment properties (Note 12)	30,396,442	50,670,590
Disposal of chattel mortgage properties (Note 14)	84,400,628	102,892,027
Disposal of property and equipment (Note 11)	15,843,013	22,239,805
Net cash provided by (used in) investing activities	2,157,804,878	(1,868,818,297)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availments of bills payable	694,923,581	1,014,971,248
Issuance of capital stock (Note 25)	—	62,500,000
Issuance of unsecured subordinated debt (Note 18)	—	500,000,000
Payments of bills payable	(687,796,900)	(839,212,489)
Net cash provided by financing activities	7,126,681	738,258,759

(Forward)

Years Ended December 31

	Years Ended December 31	
	2013	2012 (As restated)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	₱6,838,526	(₱4,117,617)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(42,215,311)	(829,475,624)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	633,646,640	591,123,145
Due from Bangko Sentral ng Pilipinas	2,029,551,219	1,912,501,244
Due from other banks	1,097,031,428	447,348,222
Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas	295,177,246	1,933,909,546
	4,055,406,533	4,884,882,157
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	607,079,022	633,646,640
Due from Bangko Sentral ng Pilipinas	2,737,379,105	2,029,551,219
Due from other banks	657,268,106	1,097,031,428
Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas	11,464,989	295,177,246
	₱4,013,191,222	₱4,055,406,533
OPERATING CASH FLOWS FROM INTEREST		
Interest received	₱1,509,853,649	₱1,746,066,862
Interest paid	760,515,510	903,414,697

See accompanying Notes to Financial Statements.

1. Corporate Information

Sterling Bank of Asia, Inc. (A Savings Bank) (the Bank), formerly Far East Savings Bank, Inc. (FESB), was incorporated in the Philippines on January 20, 1998 to engage primarily in the general business of savings and mortgage banking. FESB was authorized by the Bangko Sentral ng Pilipinas (BSP) to operate as a savings bank on February 26, 1998 and started commercial operations on March 16, 1998.

On July 12, 2006, JTKC Equities, Inc., Surewell Equities, Inc., and Star Equities, Inc. (the Buyers) entered into a Memorandum of Agreement with the Bank of the Philippine Islands (BPI) to purchase the entire capital stock of FESB. BPI is the record or beneficial owner of the entire issued and outstanding capital stock of FESB. On October 20, 2006, the Buyers and BPI entered into an Agreement to Purchase Shares to confirm the Buyers' intention to purchase FESB, subject only to the formal approval of the BSP. The BSP approved the agreement on December 27, 2006.

On December 28, 2006, the board of directors (BOD) and shareholders, in a separate meeting, approved the change in name of FESB to Sterling Bank of Asia, Inc. (A Savings Bank). On February 15, 2007 and February 27, 2007, the BSP and the Securities and Exchange Commission (SEC), respectively, approved such change in corporate name.

On March 16, 2007, the BSP confirmed the Bank's authority to operate as a thrift bank. On March 30, 2007, the Bank started accepting deposits from and granting loans to clients.

On March 9, 2009, the Bank entered into a Share Purchase Agreement (the Agreement) with the Armed Forces and Police Savings and Loan Association, Inc. (AFPSLAI) and the Armed Forces and Police Mutual Benefit Association, Inc. (AFPMBAI) to buy all of the shares of stock (including licenses and tangible/intangible assets) of Centennial Savings Bank, Inc. ('CSB'), a banking corporation based in the Philippines. AFPSLAI and AFPMBAI were the registered and beneficial owners of CSB.

On August 4, 2009, the BSP approved the Bank's application to acquire 100.00% of the shares of stock of CSB with the objective of merging it with the Bank.

The Bank obtained control of CSB on August 18, 2009 and obtained from BSP the final approval of the merger on March 29, 2010 and the Certificate of Authority for the Approved Merger on June 2, 2010. The SEC approved the merger and issued the Certificate of Filing of Articles of Merger on June 28, 2010. On that date, the Bank and CSB merged, with the Bank as the surviving entity.

The Bank's ultimate parent is JTKC Equities, Inc. by virtue of a direct interest of 35.29% and an indirect interest through Star Equities, Inc. of 26.35%. Star Equities, Inc. is a wholly-owned subsidiary of JTKC.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) investments and derivative instruments which have been measured at fair value. The financial statements are presented in Philippine peso (₱) and all values are rounded to the nearest peso.

The accompanying financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and FCDU is the Philippine peso and United States dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso, which is the Bank's presentation currency (see accounting policy on 'Foreign Currency Translation'). The financial statements of these units are combined after eliminating inter-unit accounts.

Statement of Compliance

The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statement

The Bank presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date and more than 12 months after the statement of financial position date is presented in Note 20.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amended standards which became effective on January 1, 2013. The adoption of these amendments did not have any impact on the financial statements of the Bank, unless otherwise stated:

- *PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
 - a) The gross amounts of those recognized financial assets and recognized financial liabilities;
 - b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
 - c) The net amounts presented in the statement of financial position;

- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments affect disclosures only and have no impact on the Bank's financial position or performance. The additional disclosures required by the amendments are presented in Note 4 to the financial statements.

- **PFRS 10, Consolidated Financial Statements**
PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.
- **PFRS 11, Joint Arrangements**
PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method.
- **PFRS 12, Disclosure of Interests in Other Entities**
PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights).
- **PFRS 13, Fair Value Measurement**
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 also defines fair value as an exit price and requires additional disclosures.

As a result of the guidance in PFRS 13, the Bank re-assessed its policies for measuring fair values. The Bank has assessed that the application of PFRS 13 will have material impact on the fair value measurements of the Bank and has appropriately amended their fair value measurement. Additional disclosures, as required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 5.
- **PAS 1, Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI (Amendments)**
The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled.

- **PAS 19, Employee Benefits (Revised)**
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments became effective for annual periods beginning on or after January 1, 2013. Once effective, the Bank has to apply the amendments retroactively to the earliest period presented.

The Bank reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Bank obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

	December 31, 2013	December 31, 2012	January 1, 2012
Increase/(decrease) in:			
<u>Statements of Financial Position</u>			
Retirement liability	₱5,860,090	₱29,545,748	₱37,299,251
Retained earnings	(5,360,938)	(22,435,916)	(26,321,365)
Remeasurement loss	(499,152)	(7,109,832)	(10,977,886)
		2013	2012
<u>Statements of Income</u>			
Net income		₱17,074,978	₱3,885,449
		2013	2012
<u>Statements of Other Comprehensive Income</u>			
Remeasurement gain		6,610,680	3,868,054

Foreign Currency Translation

Transactions and balances

RBU

For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities in the RBU are translated into their equivalents in Philippine pesos based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the prevailing exchange rate at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign-currency denominated monetary assets and liabilities are credited to or charged against operations in the year in which the rates change.

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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the asset is acquired.

FCDU

As at the reporting date, the assets and liabilities of the FCDU are translated into the Bank's presentation currency at PDS closing rate prevailing at the statement of financial position date, and its income and expenses are translated at PDS weighted average rate for the year. Exchange differences arising from translation to the presentation currency are taken to the statement of comprehensive income under Cumulative translation adjustment. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents consist of cash and other cash items (COCI), due from BSP and other banks, and interbank loans receivable and securities purchased under resale agreements (SPURA) with the BSP that are convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Fair Value Measurement

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.

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: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, 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.

External appraisers are involved for valuation of significant non-financial 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 the 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 (see Note 5).

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Settlement date is the date on which the transaction is settled by delivery of the assets that are the subject of the agreement. 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 the fair value of the financial asset to be received is recognized in the statement of income for financial assets at FVPL and in other comprehensive income for AFS investments. Deposits, amounts due from banks and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers. Derivatives are recognized on a trade date basis.

Initial measurement of financial instruments

All financial instruments are initially recognized at fair value plus transaction costs, except for financial assets and financial liabilities at FVPL, that are directly attributable to the acquisition or issue of the financial asset or financial liability. The Bank classifies its financial assets in the following categories: financial assets at FVPL, AFS investments, held-to-maturity (HTM) investments and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of financial position date.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income, unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial assets and liabilities at FVPL

Financial assets and liabilities at FVPL include financial assets and liabilities held for trading purposes and financial assets and liabilities designated upon initial recognition as at FVPL.

Financial assets and liabilities are classified as held-for-trading if they are acquired for purposes of selling and repurchasing in the near term. Derivatives, including any separated embedded derivatives, are also classified as financial assets or financial liabilities at FVPL, unless these are designated as hedging instruments in an effective hedge.

Financial assets or financial liabilities may be designated by the Bank on initial recognition as at FVPL when any of the following criteria are 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;
- the assets and liabilities are part of a group of financial assets, 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 liabilities at FVPL are recorded in the statement of financial position at fair value. Subsequent changes in fair value are recognized in 'Trading gains - net' in the statement of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income when the right to receive payment has been established.

Derivative instruments

The Bank uses derivatives instruments such as non-deliverable forwards and currency swaps to service customers and as means of reducing its foreign exchange exposure, as well as for trading purposes. Derivative instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from changes in fair value of derivatives that do not qualify for hedge accounting is recognized in 'Trading gains - net' in the statement of income.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in away similar to a stand-alone derivative. Embedded derivatives are bifurcated from their host contracts, when the following conditions are met:

- (a) the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets and liabilities at FVPL;
- (b) when their economic risks and characteristics are not closely related to those of their respective host contracts; and
- (c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

The Bank assesses whether embedded derivatives are required to be separated from the host contracts when it first becomes a party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

AFS investments

AFS investments include equity and debt securities. Equity investments classified as AFS investments are those which are neither classified as held-for-trading nor designated as at FVPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to liquidity needs or in response to changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognized. When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as 'Trading gains - net' in the statement of income. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-come-first-out basis.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured shall be measured at cost less impairment loss. Interest earned on holding AFS debt securities are reported as 'Interest income' using the effective interest rate (EIR). Dividend earned on holding AFS investments are recognized in the statement of income as "Other income" when the right to receive the payment has been established. The losses arising from impairment of AFS equity investments are recognized as "Provision for credit and impairment losses" in the statement of income.

HTM investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold to maturity. After initial measurement, HTM investments are carried at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment of such investments are recognized in the statement of income. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

If the Bank were to sell or reclassify more than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as AFS investments. Furthermore, the Bank would be prohibited to classify any financial assets as HTM investments for the following two years.

Loans and receivables

Loans and receivables include receivables from customers, amounts due from BSP and other banks and interbank loans receivable and SPURA with the BSP. 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 categorized as financial assets at FVPL or AFS investments.

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

Other financial liabilities

Issued financial instruments or their components, which are not designated as at FVPL, are classified as liabilities carried at amortized cost, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. Other financial liabilities include deposit liabilities, bills payable, manager's checks, accounts payable, payment orders payable, due to Philippine Deposit Insurance Corporation (PDIC) or BSP, bills purchased-contra and unsecured subordinated debt.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount on the issue and fees that are an integral part of the EIR.

Reclassification of Financial Assets

A financial asset 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.

Any gain or loss already recognized in the statement of income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new amortized cost, as applicable.

A financial asset reclassified out of the AFS category is reclassified at its fair value on the date of reclassification. Any previous gain or loss on that asset that has been recognized in other comprehensive income is amortized to the statement of income over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest method. If the asset is subsequently determined to be impaired, then the amount recorded in other comprehensive income is recycled to the statement of income.

Reclassification is at the election of management, and is determined on an instrument-by-instrument basis. In 2008, the Bank reclassified USD-denominated investment securities from AFS investments to HTM investments (See Note 8).

Derecognition of Financial Assets and Liabilities

Financial assets

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; or
- 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 the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control over 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 the asset nor transferred control over 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.

Financial liabilities

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 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, and the difference in the respective carrying amounts is recognized in the statement of income.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The corresponding cash paid, including accrued interest, is recognized in the statement of financial position as SPURA, and is considered as a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position, if and only if, there is a legally enforceable right to offset the recognized amounts and there is an intention to either 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, therefore, the related assets and liabilities are presented gross in the statement of financial position.

Financial Guarantees

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

Impairment of Financial Assets

The Bank assesses at each statement of financial position date whether there is any objective evidence of impairment that a financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence as a result of one or more events that had occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Financial assets carried at amortized cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exist for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. 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 of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flow that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in 'Provision for credit and impairment losses' in the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, 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 impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write off is later recovered, the recovery is credited to 'Provision for credit and impairment losses' in the statement of income.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the industry of the borrower. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for the 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 on 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 year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly 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 as past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loan continues to be subject to an individual (calculated using the loan's original EIR) or collective impairment. 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 in 'Provision for credit and impairment losses' in the statement of income.

AFS investments

For AFS investments, the Bank assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of AFS debt investments, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value. 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 recorded as part of 'Interest income' in the statement of income. If, in a subsequent year, the fair value of a debt investment increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

In the case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is objective evidence of impairment, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income, is removed from other comprehensive income and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

Property and Equipment

Land is stated at cost less any impairment in value and depreciable properties including building and condominium units, furniture, fixtures and equipment, transportation equipment and leasehold improvements are stated at cost less accumulated depreciation or amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the furniture, fixtures and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected 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 furniture, fixtures and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts, any resulting gain or loss is reflected as income or loss in the statement of income.

Depreciation and amortization is computed on a straight-line basis over the estimated useful lives (EUL) of the related assets. The EUL of the depreciable assets follow:

Building and condominium unit	20 years
Furniture, fixtures and equipment	3 - 5 years
Leasehold rights and improvements	5 years or related lease term, whichever is shorter

The useful lives, and depreciation and amortization methods are reviewed annually to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment.

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 carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

Investment Properties

Investment properties are measured initially 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 such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Any gain or loss on exchange is recognized in the statement of income. Foreclosed properties are classified under 'Investment properties' upon:

- a. entry of judgment in case of judicial foreclosure;
- b. execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
- c. notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Real properties acquired

Subsequent to initial recognition, depreciable real properties acquired are recorded at cost, which is the fair value at acquisition date, less accumulated depreciation and any impairment in value. Land is carried at cost less any impairment in value. Transaction costs, which include nonrefundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure are capitalized as part of the cost of the real properties acquired.

The Bank applies the cost model in accounting for investment properties. Depreciation is computed on a straight-line basis over the EUL of ten (10) years. The EUL and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of real properties acquired.

The carrying values of the real properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on 'Impairment of Nonfinancial Assets').

Other Properties Acquired

Other properties acquired include chattel mortgage properties acquired in settlement of loan receivables. These are recorded at cost, which is the fair value at acquisition date, less accumulated depreciation and any impairment in value.

The Bank applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the EUL of three (3) years. The EUL and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of the other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on 'Impairment of Nonfinancial Assets').

Branch Licenses

Branch licenses are capitalized on the basis of the costs incurred to acquire and of bringing the asset to its use in the operation. Branch licenses are deemed to have an indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate net cash inflows for the Bank.

Branch licenses are tested for impairment annually. Where the carrying value of branch licenses exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Impairment of Nonfinancial Assets

Property and equipment, investment properties and chattel mortgage properties

An assessment is made at each statement of financial position date as to whether there is any indication of impairment of an asset, 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. If any indication of impairment exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash generating unit's (CGU) value in use or its fair value less costs to sell. 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

An impairment loss is recognized only if the carrying amount of an asset or CGU exceeds its recoverable amount. An impairment loss is charged against income in the year in which it arises, unless the asset is carried at a revalued amount in which case the impairment loss is charged against revaluation increment of the said asset.

If there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased, the Bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's or CGU's recoverable amount since the last impairment loss was recognized. A previously recognized impairment loss is reversed by a credit to current operations, unless the asset is carried at a revalued amount, in which case, the reversal of the impairment loss is credited to the revaluation increment of the same asset, to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

Branch licenses

Branch licenses are tested for impairment annually at the statement of financial position date either individually or at the CGU level, as appropriate.

Capital Stock

Capital stock is recorded at par. Proceeds in excess of par value are recognized under equity as 'Capital paid in excess of par value' in the statement of financial position. Incremental costs incurred which are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Revenue Recognition

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

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS investments, interest income is recorded at the EIR, which 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. When calculating the EIR, the Bank estimates cash flows from the financial instrument (for example, prepayment options), but does not consider future credit losses. The calculation includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR and, all others premiums and discounts.

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 applied to the new carrying amount.

Trading gains - net

Trading gains - net represents results arising from trading activities including all gains and losses from changes in fair value of FVPL instruments, gains and losses from disposal of AFS investments, and gains or losses arising from derivatives transactions.

Fee and commission income

Fees and commissions arising from providing transaction services are recognized on completion of the transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the criteria.

Service charges and penalties

Service charges and penalties under 'Service charges, fees and commissions' in the statement of income are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

Profit (loss) from assets sold or acquired

Income from sale of properties acquired is recognized upon completion of the earning process and the collectability of the sales price is reasonably assured. Gain or loss on foreclosure is determined as the difference between the fair value at foreclosure and the carrying amount of the loan. Gain on foreclosure is recognized when the risks and rewards of the property has been transferred to the Bank.

Expense Recognition

Expenses are recognized when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

Interest Expense

Interest expense for all interest-bearing financial liabilities are recognized under 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate.

Operating expenses

Operating expenses constitute costs which arise in the normal business operation and are recognized when incurred.

Taxes and licenses

These consist of all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees, and are recognized when incurred.

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 lessee

Operating lease payments are recognized as expense in the statement of income on a straight-line basis over the lease term.

Retirement Cost

The Bank has a noncontributory defined benefit retirement plan. The retirement cost of the Bank is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement obligation in the future with respect to services rendered in the current year.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by an independent qualified actuary.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

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 of the Bank when the Bank acts in a fiduciary capacity such as a nominee, trustee or agent.

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.

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable. Where the Bank expects some or all of the provision to be reimbursed, for example 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 presented in the statement of income at gross of any reimbursement and the reimbursement is recognized as income.

Income Taxes

Current taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as of the statement of financial position date.

Deferred tax

Deferred tax is provided on all temporary differences at the statement of financial position 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, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or 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; and
- In respect of taxable temporary differences associated with investment in a subsidiary, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused excess MCIT or RCIT and unused NOLCO can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference 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; and
- In respect of deductible temporary differences associated with investment in a subsidiary, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position 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. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period 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 statement of financial position date.

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

Events after the Reporting Date

Post year-end events that provide additional information about the Bank's position at the statement of financial position date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Standards Issued but not yet Effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt these standards when they become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the financial statements.

PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36.

In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)

These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Bank since none of the entities in the Bank would qualify to be an investment entity under PFRS 10.

Philippine Interpretation IFRIC 21, Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Bank does not expect that IFRIC 21 will have material financial impact in future financial statements.

PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Bank has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Bank's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

PFRS 9, Financial Instruments

PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Bank will not adopt the standard before the completion of the limited amendments and the second phase of the project.

Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 2, Share-based Payment - Definition of Vesting Condition

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Bank as it has no share-based payments.

PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Bank shall consider this amendment for future business combinations.

PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets

The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

PFRS 13, Fair Value Measurement - Short-term Receivables and Payables

The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation

The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Bank's financial position or performance.

PAS 24, Related Party Disclosures - Key Management Personnel

The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a Bank for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization

The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Bank's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*

The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Bank as it is not a first-time adopter of PFRS.

PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*

The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

PFRS 13, *Fair Value Measurement - Portfolio Exception*

The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Bank's financial position or performance.

PAS 40, *Investment Property*

The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is an acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Bank's financial position or performance.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Bank to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities, if any. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

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

a. *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recognized or disclosed in the financial statements cannot be derived from active markets, they are determined using an internal 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. Refer to Note 5 for the fair values and the measurement bases of the financial instruments.

b. *HTM investments*

The classification to HTM investment requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. Ability to hold the debt securities to maturity is demonstrated by the availability of financial resources to continue to finance the investment until maturity. If the Bank fails to keep these investments to maturity other than in specific circumstances, it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost.

c. *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.

d. *Operating leases - Bank as lessee*

The Bank has entered into leases on premises it uses for its operations. The Bank has determined, based on the evaluation of the terms of the lease agreements, that all significant risks and rewards of ownership of the properties are retained by the respective lessors.

e. *Contingencies*

The Bank is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the Bank's defense in these matters and is based on an analysis of potential results. The Bank currently does not believe that these proceedings will have a material adverse effect on the financial statements. 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 28).

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:

- the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);

- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

g. *Going concern*

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Estimates

a. *Credit losses on loans and receivables*

The Bank reviews its individually significant loans and receivables at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on a number of factors and assumptions which may differ in the future and result to changes to future allowance.

Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio, historical default data, concentrations of risks and economic data.

Provision for credit losses of the Bank amounted to ₱110.2 million and ₱78.0 million in 2013 and 2012, respectively (see Notes 10).

As of December 31, 2013 and 2012, loans and receivables of the Bank, net of allowance for credit losses and unearned discounts and deferred credits, amounted to ₱16.3 billion and ₱16.1 billion, respectively (see Note 10).

b. *Impairment of branch licenses*

Branch license is considered an intangible asset with an indefinite useful life and it is required to be tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired.

When the branch license's fair value less cost of disposal is lower than its carrying amount, the Bank's impairment test is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Bank is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

As of December 31, 2013 and 2012, the total carrying amount of the Bank's branch licenses amounted to ₱225.4 million (see Note 13). No impairment loss was recognized for branch licenses in 2013 and 2012.

c. *Impairment of Other nonfinancial assets*

The Bank assesses impairment on other nonfinancial assets (i.e., Property and equipment, investment properties and chattel mortgage properties) 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 nonfinancial assets or the strategy for overall business; and
- significant negative industry or economic trends.

The carrying values of the Bank's other nonfinancial assets are as follows:

	2013	2012
Property and equipment (Note 11)	₱552,486,235	₱604,445,652
Investment properties (Note 12)	122,182,780	121,944,300
Chattel mortgage properties (Note 14)	11,698,498	22,435,023

Provision for impairment losses amounting to ₱12.6 million and nil was recognized on other nonfinancial assets in 2013 and 2012, respectively (see Note 12).

d. *Estimated useful lives of property and equipment, investment properties and chattel mortgage properties*

The Bank reviews on an annual basis the EUL of depreciable property and equipment, investment properties and chattel mortgage properties based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the EUL of depreciable property and equipment, investment properties and chattel mortgage properties would decrease their respective balances and increase the recorded depreciation and amortization expense.

The carrying values of depreciable property and equipment, investment properties and chattel mortgage properties follow:

	2013	2012
Property and equipment (Note 11)	₱388,141,735	₱440,101,152
Investment properties (Note 12)	84,350,362	70,192,915
Chattel mortgage properties (Note 14)	11,698,498	22,435,023

e. *Recognition of deferred tax assets*

The Bank reviews the carrying amounts of deferred tax assets at each financial statement of financial position date and reduces it 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. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The Bank has been in a tax loss position over the past three years. However, estimates of future taxable income indicate that certain temporary differences will be realized in the future. As of December 31, 2013 and 2012, the Bank's recognized deferred tax assets amounted to ₱21.5 million (see Note 24).

As of December 31, 2013 and 2012, the Bank did not recognize deferred tax assets on temporary differences totaling ₱557.7 million and ₱500.0 million, respectively (see Note 24).

f. *Present value of retirement obligation*

The cost of defined retirement plan is 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 this plan, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields of Philippine government bonds with terms consistent with the expected employee benefit payouts as of the statement of financial position date.

As of December 31, 2013 and 2012, the accrued retirement obligation (included under 'Accrued interest, taxes and other expenses' in the statements of financial position) amounted to ₱48.2 million and ₱48.6 million, respectively (see Notes 17 and 22).

4. Financial Risk Management Objectives and Policies

Introduction

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Risk Governance

The Bank's BOD has overall responsibility for the oversight of the Bank's risk management process. The established risk governance framework together with the supporting structure provides for the mechanism to ensure oversight and accountability for risk at various levels in the organization. Various board and management committees, which are responsible for developing, managing and monitoring specific risks that the Bank is exposed to, include the following:

1. Risk Management Committee (RMC)
2. Audit Committee (AC)
3. Loan Committee (Loancom)
4. Asset-Liability Committee (ALCO)
5. Credit Committee (Crecom)

The RMC is responsible for developing the Bank's risk strategy and the supporting risk management policies and procedures, ensuring the soundness of risk management practices in relation to the risks faced by the Bank.

The RMC is supported by the Risk Management Group (RMG) in the exercise of its risk oversight functions. RMG, which is independent of the business units and is directly reporting to the RMC, performs daily market risk analyses to ensure compliance with the Bank's policies and procedures and makes recommendations based on such analyses. The RMG likewise monitors, supervises and controls the credit acceptance policies, the borrowing account ratings and portfolio development.

AC is responsible for monitoring the Bank's compliance with the risk management policies and procedures, and at the same time, for reviewing the adequacy of risk management framework in relation to the risks faced by the Bank. The AC is assisted in these functions by the Internal Audit (IA) department. IA undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

Loancom is a Board Committee that acts as the highest approving body for loan and other credit related matters. It carries with it a fiduciary responsibility that the credit approval or endorsement of credit facilities is based on a diligent, sound and prudent evaluation of the risks involved.

ALCO is also responsible for ensuring that the Bank maintain adequate liquidity, sufficient capital and the appropriate funding to meet all business requirements and comply with all regulatory requirements. It is also responsible for building a stable funding structure by managing the the Bank's asset and liability profile. Moreover, it manages the bank's financial position and ensures that the bank's liquidity, capital and funding structure support business strategies. It likewise establishes the bank's asset-liability pricing policies.

Crecom is the management level committee that evaluates and screens all credit proposals requiring the approval of the President, Loancom or Board and likewise monitors credit underwriting activities done at management level. It ensures that credit risk is within the Board set risk tolerance levels and that proposals comply with the credit underwriting standards as set in the Bank's policies and procedures.

Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations. The Bank's credit risk exposure arise largely from its lending, trade finance and investment activities. The Bank manages credit risk through an established risk control framework that provides for policies, and guidelines to the business units together with a system of limits reflective of the Bank's risk tolerance and capacity. A monitoring mechanism is also in place to ensure that exposures to individual counterparties, related accounts, countries, and industries are within Board approved limits and that credit concentration is within acceptable levels.

While the Credit Risk Control Unit of RMG provides for an independent risk monitoring and control of credit exposures, each business unit is responsible for the quality and performance of its credit portfolio. As the first line of defense, business units are responsible for monitoring and controlling the credit risks in its portfolio. The Credit Risk Control Unit, meanwhile, provide for an independent evaluation of the Bank's credit risk exposure via reviews of loan proposals and credit processes, borrower risk assessments, and credit administration. This is complemented by regular audits of business units and credit processes undertaken by Internal Audit that provide for assurance and feedback mechanisms to determine sufficiency and effectiveness of established risk controls.

The Bank extends various types of loans, some on clean basis, but mostly against hard collaterals and other form of securities. Personal and salary loans are generally granted on a clean basis. Auto loans are secured versus chattel mortgage on the vehicles at 50.00% to 80.00% loan value; real estate loans are secured versus first real estate mortgage at 50.00% to 80.00% loan value. The Bank's commercial/small-medium enterprise loans cover a mix of clean (unsecured, which include those under personal guarantees) as well as secured credit facilities; i.e., those supported by real estate and chattel mortgages, guarantees and other registered securities at 50.00% to 70.00% loan valuations. Estimates of fair value are based on the value of collateral assessed at the time of the borrowing.

All loan applications, covering the different types of loans, undergo strict credit evaluation in accordance with established risk acceptance criteria. The essential elements that the Bank looks for/at in all its credit dealings and account relationships are: favorable credit checkings; good credit standing and track record with other counterparties, banks and trade partners alike; financial strength and cash generating capabilities (fund sourcing) which translate into determination of paying capacity that establishes repayment expectations; and acceptable collateral/security, if applicable. Furthermore, credit underwriting is performed within a framework of delegated credit authorities, that take into account facility risks and magnitudes of potential exposures.

Management of credit risk

The BOD is assisted in the management of credit risk by the Credit Risk Control Department of the Risk Management Group (CRC-RMG), which continuously implements its risk control programs, in line with its oversight function over the Bank's lending activities. The CRC-RMG is principally tasked with identifying, monitoring, reporting and controlling the Bank's credit risk. Its specific functions are as follows:

- It takes charge of administering the Bank's lending policies, ensuring compliance by those concerned with continuous issuance of updates on policies and process guidelines for bankwide implementation and compliance.
- It spearheads the activities of the Credit Committee, whose main objective is to evaluate and screen commercial loan proposals requiring approvals beyond line management levels.
- It classifies commercial borrowing accounts according to several levels of risk, based on the internal credit risk rating system and regularly determines loan impairments for the purpose of determining the appropriate loan loss reserves.
- It conducts credit stress testing and regularly evaluates and monitors the quality of the Bank's loan portfolio via the Portfolio Profile Report, as part of the scheme of controlling large concentration and group exposures.

Maximum exposure to credit risk after collateral held or other credit enhancements

The Bank's maximum exposure to on-balance sheet credit risk is equal to the carrying value of its financial assets except for the following loans and receivables:

	2013			Financial Effect of Collaterals or Credit Enhancements
	Carrying Amount	Fair value of Collaterals or Credit Enhancements	Maximum Exposure to Credit risk	
Loans and receivables:				
Receivables from customers:				
Corporate loans	P10,387,644,641	P3,232,349,642	P8,488,234,856	P1,939,409,785
Consumer loans	3,994,511,755	3,744,484,517	728,748,286	3,265,763,469
Sub-total	14,382,156,396	6,976,834,159	9,176,983,142	5,205,173,254
Unquoted debt securities	760,596,499	-	760,596,499	-
Accrued interest receivable	318,021,829	-	318,021,829	-
Accounts receivable	45,035,868	-	45,035,868	-
Receivables purchased	771,759,255	769,420,110	310,107,190	461,652,066
Sales contracts receivable	16,399,178	16,107,240	3,513,386	12,885,792
	P16,293,969,025	P7,762,361,509	P10,614,257,914	P5,679,711,112

	2012			
	Carrying Amount	Fair value of Collaterals or Credit Enhancements	Maximum Exposure to Credit risk	Financial Effect of Collaterals or Credit Enhancements
Loans and receivables:				
Receivables from customers:				
Corporate loans	P10,188,513,856	P3,819,699,065	P7,783,834,209	P2,404,679,647
Consumer loans	3,933,738,234	4,308,320,099	803,134,739	3,130,603,495
Sub-total	14,122,252,090	8,128,019,164	8,586,968,948	5,535,283,142
Unquoted debt securities	1,392,343,929	-	1,392,343,929	-
Accrued interest receivable	231,355,431	-	231,355,431	-
Accounts receivable	46,683,243	-	46,683,243	-
Receivable from stockholders	9,426,020	-	9,426,020	-
Receivables purchased	282,949,617	270,178,519	22,102,599	260,847,018
Sales contracts receivable	7,315,356	7,232,244	1,529,560	5,785,796
	P16,092,325,686	P8,405,429,927	P10,290,409,730	P5,801,915,956

Concentration of credit risk exposure of financial assets

The Bank monitors concentration of credit risk of counterparty by industry. The distribution of the Bank's financial assets and off-balance sheet items by industry sector, before taking into account collaterals held or other credit enhancements (maximum exposure) follows:

	2013				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Other community, social and personal activities	P4,452,506,687	P-	P-	P1,446,432	P4,453,953,119
Wholesale and retail trade	3,916,373,915	-	-	-	3,916,373,915
Real estate, renting and business activities	3,499,081,787	-	-	20,379,674	3,519,461,461
Manufacturing	1,987,025,510	-	-	-	1,987,025,510
Financial intermediaries	1,482,632,384	3,406,112,200	1,755,084,163	89,065,377	6,732,894,124
Philippine government	-	-	3,300,486,184	-	3,300,486,184
Agricultural, hunting and forestry	454,709,850	-	-	-	454,709,850
Transportation, storage and communication	375,181,642	-	-	-	375,181,642
Construction	321,641,891	-	-	-	321,641,891
Mining and quarrying	21,391,738	-	-	-	21,391,738
Hotel and restaurants	85,060,260	-	-	-	85,060,260
Electricity, gas and water supply	500,000	-	-	-	500,000
	16,596,105,664	3,406,112,200	5,055,570,347	110,891,483	25,168,679,694
Less allowance for credit losses	302,136,639	-	-	-	302,136,639
Total	P16,293,969,025	P3,406,112,200	P5,055,570,347	P110,891,483	P24,866,543,055

* Comprised of due from BSP, due from other banks and interbank loans receivables and SPURA with the BSP

** Comprised of financial assets at FVPL, AFS investments (excluding unquoted equity securities) and HTM investments

*** Comprised of Returned checks and other cash items (RCOCI), refundable deposits and contingencies relating to outstanding guarantees and domestic letters of credit

	2012				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Financial intermediaries	P854,819,041	P3,421,759,893	P1,954,442,209	P58,031,857	P6,289,053,000
Philippine government	1,392,343,929	-	4,163,802,209	-	5,556,146,138
Other community, social and personal activities	4,295,839,727	-	-	309,567	4,296,149,294
Real estate, renting and business activities	3,321,424,443	-	-	23,090,334	3,344,514,777
Manufacturing	2,535,726,223	-	-	-	2,535,726,223
Wholesale and retail trade	2,201,438,618	-	-	-	2,201,438,618
Agricultural, hunting and forestry	566,219,502	-	-	-	566,219,502
Transportation, storage and communication	527,917,515	-	-	-	527,917,515
Construction	497,059,098	-	-	-	497,059,098
Mining and quarrying	68,960,802	-	-	-	68,960,802

(Forward)

	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Hotel and restaurants	P20,656,750	P-	P-	P-	P20,656,750
Electricity, gas and water supply	3,424,074	-	-	-	3,424,074
	16,285,829,722	3,421,759,893	6,118,244,418	81,431,758	25,907,265,791
Less allowance for credit losses	193,504,036	-	-	-	193,504,036
Total	P16,092,325,686	P3,421,759,893	P6,118,244,418	P81,431,758	P25,713,761,755

* Comprised of due from BSP, due from other banks and interbank loans receivables and SPURA with the BSP

** Comprised of financial assets at FVPL, AFS investments (excluding unquoted equity securities) and HTM investments

*** Comprised of RCOCI, refundable deposits and contingencies relating to outstanding guarantees and domestic letters of credit

The Bank regularly assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Indication or evidence of impairment may include indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower 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.

The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowance appropriate for each individually significant loan or advance on an individual basis. Factors considered in determining the appropriate amounts of allowances include an account's age, payment and collection history, short and medium term prospects in the industry, and timing of expected cash flows and realizable value of collateral.

The Bank sets criteria for specific loan impairment testing and uses the discounted cash flow technique method to compute for impairment loss. Accounts subjected to specific impairment and are found to be impaired shall be excluded from the collective impairment computation.

Collectively assessed allowances

Allowances are assessed collectively for losses on commercial loans and advances that are not individually significant and those significant loans and advances which were individually assessed for impairment but were found not to be impaired. Generally, the Bank applies the probability of loss method in determining the collective impairment allowance for its consumer loans, where such probability is derived from the product of default rate and loss rate. For personal and salary loans in particular, the added dimension of net flow rate method is considered. This method utilizes the historical data on movements of arrearages (flow-over and flow-back) across the different delinquency age buckets, as a means of determining default and loss rates.

Credit quality per class of financial assets

In compliance with BSP Circular No. 439, the Bank has developed and continually reviews and calibrates its internal risk rating system for large exposures aimed at uniformly assessing its credit portfolio in terms of risk profile.

The credit quality of trading and investment securities is generally monitored through the external ratings of eligible external credit rating institutions. Presented below is the mapping of the credit risk rating from external rating agencies to the Bank's internal risk rating for investment securities:

A. Moody's Rating:

Credit Quality	Rating				Short-term
	Long-term				
High Grade	Aaa	Aa	A	Baa	P
Standard Grade	Ba	B			Not Prime
Substandard Grade	Caa	Ca			
Impaired	C				

B. S&P Rating:

Credit Quality	Rating				Short-term
	Long-term				
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC	CC	C		C
Impaired	D				

C. Fitch Rating:

Credit Quality	Rating				Short-term
	Long-term				
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC				C
Impaired	DDD	DD	D		

D. Philratings:

Credit Quality	Rating				Short-term
	Long-term				
High Grade	PRS Aaa	PRS Aa	PRS A	PRS Baa	PRS 1
					PRS 2
					PRS 3
Standard Grade	PRS Ba	PRS B			PRS 4
Substandard Grade	PRS Caa	PRS Ca			PRS 5
Impaired	PRS C				PRS 6

For debt securities not rated by any rating agency, the Bank performs the credit rating review for the issuers of the debt securities based on quantitative and qualitative analyses, the data of which are provided by the Treasury/Trust Group.

Below is the guidance in evaluating if the investment is impaired or not.

Credit Quality	Rating	Assessment
High Grade	1 and 2	Not Impaired
Standard Grade	3	Not Impaired
Substandard Grade	4	Impaired
Impaired	5	Impaired

For loans, the credit quality is generally monitored using the Bank's internal ratings system. It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on major potential risk and the comparison of credit exposures across all lines of business, demographics and products. The rating system has two parts, namely, the borrower's risk rating and the facility risk rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information to provide the main inputs for the measurement of credit risk.

The Bank uses Internal Credit Risk Ratings to classify the credit quality of its receivables portfolio. This is being upgraded, as needed, to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment.

Descriptions of the loan grades used by the Bank for receivable from customers are as follows:

Risk Rating	Classification	Credit Quality
1	Excellent	High Grade
2	Strong	High Grade
3	Good	High Grade
4	Satisfactory	Standard Grade
5	Acceptable	Standard Grade
6	Weak	Standard Grade
7	Poor	Impaired
8	Substandard	Impaired
9	Doubtful	Impaired
10	Loss	Impaired

Risk Rating 1 - Excellent

The borrower's ability to meet its financial commitments is extremely strong and there is a very low probability that it will default on payments due in the coming year. The borrower has a high degree of stability, substance and diversity.

A borrower in this category has access to substantial amounts of funds through the public capital markets at any time. It has a strong debt service capacity and has conservative balance sheet leverage (vis-a-vis the industry in which the borrower operates). The track record in profit terms is very good. The borrower is of the highest quality, operating reliably under virtually any and all economic conditions.

Risk Rating 2 - Strong

The borrower's ability to meet its financial commitments is very strong and there is a low probability that it will default on payments due in the coming year. The borrower normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrowers in this category have good access to public markets to raise funds.

Borrower has a strong market and financial position with a history of successful performance. The overall debt service capacity as measured by cash flow to total debt service is very strong; the critical balance sheet ratios (vis-à-vis applicable industry) are conservative.

These borrowers herein categorized are described as quality multinational or local corporations which are adequately capitalized and operating profitably.

Risk Rating 3 - Good

The borrower's ability to meet its financial commitments is strong. It may be described as big or small corporation whose access to public capital markets or to alternative financial markets is easy, may be limited to periods of favorable economic and/or market conditions.

A borrower in this category usually exhibits characteristics of some degree of stability and substance and the probability of default is still quite low. However, it may still be susceptible to the negative effects of cyclical business changes.

Typical traits include a combination of comfortable asset protection and an acceptable balance sheet structure (vis-à-vis that industry). The debt service capacity as measured by cash flow analysis is strong.

Risk Rating 4 - Satisfactory

The borrower has adequate capacity to meet its financial commitments. Borrower operates in an environment where clear risk elements exist and the probability of default is somewhat greater. This probability is reflected in volatility of earnings and overall performance. A borrower in this category normally has limited access to public financial markets. It should be able to withstand normal business cycles, but any prolonged unfavorable economic climate may create gradual deterioration in its financial health.

Typical for this kind of borrower is the combination of reasonably sound asset and cash flow protection. The debt service capacity as measured by cash flow is deemed adequate. The borrower has reported profits for the past fiscal year and is expected to report a profit in the current year.

Risk Rating 5 - Acceptable

The borrower is less vulnerable but faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions that could lead to its inadequate capacity to meet its financial commitments.

This category represents borrowers who may still be able to withstand normal business cycles; however, any prolonged unfavorable economic and/or market condition would create an immediate deterioration beyond acceptable levels.

This category will apply where the risk is still acceptable for the following reasons:

- There is sufficient cash flow either historically or expected for the future, in spite of an economic downturn combined with asset protection; or
- There is a new business or project finance transaction.

Risk Rating 6 - Weak

The borrower is more vulnerable but currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial requirements.

This category represents the type of borrower for which unfavorable industry or company-specific risk factors represent a concern. Operating performance and financial strength may be marginal and it is uncertain whether the borrower can attract alternative sources of financing. Typically, the borrower will find it very hard to cope with any significant economic downturn and a default in such a case is more than a possibility.

Generally, a borrower in this category incurs net losses for one or more years. Normally, there is an expectation that conditions will improve and the rating may be upgraded. Any deterioration, however, will almost certainly result in an automatic downgrade.

In summary, this category includes those borrowers where the credit exposure is not at risk of loss at the moment, but wherein performance has weakened, and unless present trends are reversed, could lead to losses.

Risk Rating 7 - Poor

The borrower is currently vulnerable and is dependent on favorable business, financial and economic conditions to meet its financial obligations.

A borrower in this category is characterized by some probability of default, manifested by some or all of the following:

- Evidence of weakness in the borrower's financial condition or creditworthiness
- Unacceptable risk generated by potential or emerging weaknesses as far as asset protection and/or cash flow is concerned. Concerns center on the potential for a continuation of unfavorable economic, market, or borrower specific conditions or trends, which may affect future debt service capacity.
- Indications that the borrower's ability or willingness to service debt are in doubt.
- Necessity or strong likelihood for rescheduling of the loan.
- Decline in values of, or adverse developments on, collaterals securing the loan.

Risk Rating 8 - Substandard

The borrower is currently highly vulnerable and is in a state of default. Substandard loans are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable or unsatisfactory characteristics. These well-defined adverse elements exist in such loans where there is a possibility of future loss to the institution unless given closer supervision. Such may include adverse trends or development of a financial, managerial, economic or political nature or significant weakness in collateral. Basic characteristics are:

- Past due and circumstances are such that there is an imminent possibility of foreclosure or acquisition of the collateral because of failure of all collection efforts;
- Past due loans to borrowers whose properties securing the loan have declined in value materially or have been found with defects as to ownership or other adverse information;
- Current loans to borrowers whose financial statements audited by SEC-accredited external auditors show impaired/negative net worth except for startup firms which should be elevated on a case-to-case basis;
- Renewed loans of borrowers with declining trend in operations, illiquidity, or increasing leverage trend in the borrower's financial statements without at least 20.0% repayment of the principal before renewal or extension;
- Current loans of borrowers with unfavorable results of operations for two consecutive years or with impaired/negative net worth except for startup firms which should be evaluated on a case-to-case basis;
- Loans under litigation; and
- Loans past due for more than 90 days.

Risk Rating 9 - Doubtful

Borrower is in a state of default, where any of the following factors are present:

- Account is already in "non-performing loan" (NPL) status;
- Any portion of any interest and/or principal repayment is in arrears for more than 90 days;
- The borrower is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful; and
- Overdue loans wherein the prospects of fully applying the collaterals is impaired due to material declines in market values, or subject of adverse claim.

The extent of probability of loss cannot be exactly quantified at this time. Although the possibility of loss is significant, there may be certain important and reasonably specific pending factors that can work to the advantage of the Bank and result in a strengthening of assets of the borrower. Pending factors include merger, acquisition, capital injection and additional cover.

Risk Rating 10 - Loss

Borrower is in a state of default and the prospect for re-establishment of creditworthiness and debt service is remote.

This category also applies where the Bank will take or has taken title to the assets of the borrower and is preparing a foreclosure and/or liquidation of the company.

These are loans or portions thereof 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. The amount of loss is difficult to measure and it is neither practical nor desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future. Basic characteristics are:

- Past due clean loans, the interest of which has remained unpaid for a period of 6 months;
- Loans payable in installments where amortization applicable to interest is past due for a period of 6 months, unless the loan is fully secured;
- When the borrower's whereabouts are unknown, or he is insolvent, or his earning power is permanently impaired and his co-makers or guarantors are insolvent or that their guarantee is not financially supported;
- Where the collaterals securing the loans are considered worthless and the borrower and/or his co-makers are insolvent; and
- Loan considered as absolutely uncollectible.

The following tables show the credit quality of financial assets by class (gross of allowance) of the Bank (amounts in thousands):

	2013					
	Neither Past Due nor Impaired			Past Due but not Individually Impaired		
	High Grade	Standard Grade	Total	Individually Impaired	Individually Impaired	Total
Financial assets at FVPL:						
Government securities	₱1,272,668	₱-	₱1,272,668	₱-	₱-	₱1,272,668
Private bonds	220,261	64,296	284,557	-	-	284,557
AFS investments:						
Government securities	1,906,615	-	1,906,615	-	-	1,906,615
Private debt securities	233	1,470,294	1,470,527	-	-	1,470,527

(Forward)

	2013					
	Neither Past Due nor Impaired			Past Due but not Individually Impaired		Total
	High Grade	Standard Grade	Total	Individually Impaired	Individually Impaired	
HTM investments:						
Government securities	P121,203	P-	P121,203	P-	P-	P121,203
Loans and receivables:						
Loans and discount:						
Corporate	2,717,727	7,978,790	10,696,517	205,393	113,290	11,015,200
Consumer	3,117,229	620,529	3,737,758	460,429		4,198,187
Unquoted debt securities	760,596	-	760,596	-	-	760,596
Bills purchased	242,665	-	242,665	-	-	242,665
Accrued interest receivable	318,022	-	318,022	-	-	318,022
Accounts receivable	45,036	-	45,036	-	-	45,036
Sales contracts receivable	16,399	-	16,399	-	-	16,399
Other assets:						
RCOCI	1,446	-	1,446	-	-	1,446
Refundable deposits	20,380	-	20,380	-	-	20,380
Loans and advances to banks:						
Due from BSP	2,737,379	-	2,737,379	-	-	2,737,379
Due from other banks	657,268	-	657,268	-	-	657,268
Interbank loans receivable	11,465	-	11,465	-	-	11,465
	P14,166,592	P10,133,909	P24,300,501	P665,822	P113,290	P25,079,613

	2012					
	Neither Past Due nor Impaired			Past Due but not Individually Impaired		Total
	High Grade	Standard Grade	Total	Individually Impaired	Individually Impaired	
Financial assets at FVPL:						
Government securities	P272,942	P-	P272,942	P-	P-	P272,942
Private bonds	108,254	11,346	119,600	-	-	119,600
Derivative Assets	612	-	612	-	-	612
AFS investments:						
Government securities	3,917,080	-	3,917,080	-	-	3,917,080
Private debt securities	1,486,212	209,173	1,695,385	-	-	1,695,385
HTM investments:						
Government securities	112,624	-	112,624	-	-	112,624
Loans and receivables:						
Loans and discount:						
Corporate	2,049,523	7,615,792	9,665,315	290,711	107,329	10,063,355
Consumer	2,820,040	820,579	3,640,619	471,896		4,112,515
Bills purchased	422,836	-	422,836	-	-	422,836
Unquoted debt securities	1,392,344	-	1,392,344	-	-	1,392,344
Accrued interest receivable	231,355	-	231,355	-	-	231,355
Accounts receivable	46,683	-	46,683	-	-	46,683
Receivable from stockholders	9,426	-	9,426	-	-	9,426
Sales contracts receivable	7,315	-	7,315	-	-	7,315
Other assets:						
RCOCI	310	-	310	-	-	310
Refundable deposits	23,090	-	23,090	-	-	23,090
Loans and advances to banks:						
Due from BSP	2,029,551	-	2,029,551	-	-	2,029,551
Due from other banks	1,097,031	-	1,097,031	-	-	1,097,031
Interbank loans receivable	295,177	-	295,177	-	-	295,177
	P16,322,405	P8,656,890	P24,979,295	P762,607	P107,329	P25,849,231

The table below shows the aging analysis of past due but not specifically impaired loans and receivables by class (in thousands).

	2013					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
Loans and discount:						
Corporate	P-	P-	P-	P-	P205,393	P205,393
Consumer	3,035	6,152	34,694	52,080	364,468	460,429
Total	P3,035	P6,152	P34,694	P52,080	P569,861	P665,822

	2012					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
Loans and discount:						
Corporate	P3,000	P-	P-	P3,007	P284,704	P290,711
Consumer	6,842	8,599	93,532	86,894	276,029	471,896
Total	P9,842	P8,599	P93,532	P89,901	P560,733	P762,607

The above aging analysis already excludes accounts that have been assessed to be specifically impaired. Further, the definition of past due follows that of PFRS 7, which states that a financial asset is past due when the counterparty has failed to make a principal or interest payment when due.

See Note 10 for the detailed information with respect to the Bank's allowance for credit losses on loans and receivables.

Collateral and other credit risk mitigation

The amount and type of collateral required depends on an assessment of the credit risk of the obligor. The Bank implements certain requirements regarding the acceptability of types of collateral and valuation.

Collateral comes in the form of financial or non-financial assets. The main types of collateral obtained include cash or securities, charges over real estate or chattel properties, inventory and trade receivables and mortgages over residential properties. The Bank also obtains guarantees from parent companies for loans of borrowing entities belonging to a group of companies.

The Bank monitors the market value of collateral, and request for additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowances for credit losses.

The following table shows the fair value of collaterals held against neither past due nor impaired loans and receivables of the Bank:

	2013	2012
Properties	P5,122,888,186	P3,613,656,367
Deposits	1,645,607,801	1,733,981,376
	P6,768,495,987	P5,347,637,743

It is the Bank's policy to dispose assets acquired in an orderly fashion. Such assets for disposal are offered for sale through public bidding (only after they are appraised anew to determine current market values; and duly bid for, based on the approved minimum bid price/s). The proceeds of the sale of the foreclosed assets classified as 'Investment properties' are used to reduce or repay the outstanding claim.

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses or costs. Specifically, this pertains to events that may necessitate the Bank to enter into transactions that would realize significant losses or costs in order to meet its obligations when they fall due.

ALCO is responsible for formulating the Bank's liquidity risk management policies, whereas the RMG is responsible for monitoring such risks. Liquidity management is among the most important activities conducted within the Bank. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. The Bank utilizes a diverse range of sources of funds, although short-term deposits made with the Bank's network of domestic branches comprise the majority of such funding.

The Bank's liquidity risk is managed by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met with minimum sacrifice to market price and by maintaining a balanced loan portfolio which is repriced on a regular basis. Deposits with banks are made on a short-term basis with almost all being available on demand or within three months.

The Bank's treasury department uses liquidity forecast models that estimate the Bank's cash flow needs based on the Bank's actual contractual obligations and under normal circumstances and extraordinary circumstances. The RMG prepares a monthly maximum cumulative outflow report, which is an analysis of maturity gaps of the Bank's assets and liabilities.

Aging of financial assets and financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities and financial assets used for liquidity management based on contractual undiscounted payments and receipts as of December 31, 2013 and 2012:

	2013						
	On demand	Within 30 days	31 to 60 days	61 to 180 days	181 to 360 days	Over 360 days	Total
Financial Assets							
Financial assets at FVPL	P-	P10,166,241	P1,974,473	P31,574,644	P43,715,357	P2,719,613,297	P2,807,044,012
AFS investments	-	2,335,009	278,250	98,111,350	100,724,609	5,854,193,101	6,055,642,319
HTM investments	-	4,014,849	-	4,740,904	4,740,904	252,360,247	265,856,904
COCI	607,079,022	-	-	-	-	-	607,079,022
Loans and receivables:							
Due from BSP	-	2,737,685,772	-	-	-	-	2,737,685,772
Due from other banks	-	657,268,106	-	3,041,065	-	-	660,309,171
Interbank loans receivable and SPURA with the BSP	-	11,464,989	-	-	-	-	11,464,989
Loans and receivables:							
Loans and discounts	-	2,274,311,274	1,640,495,449	3,725,588,601	2,394,466,993	10,080,114,591	20,114,976,908
Unquoted debt securities	-	4,907,273	23,106,004	25,766,052	81,893,970	821,169,557	956,842,856
Accrued interest receivable	-	39,188,811	27,828,792	63,415,845	46,172,670	141,415,711	318,021,829
Accounts receivable	-	6,321,343	6,466,515	10,539,662	8,152,458	13,555,890	45,035,868
Receivable from stockholders	-	-	-	-	-	-	-
Sales contracts receivable	-	1,846,303	1,846,303	1,846,303	1,846,303	13,922,552	21,307,764
	607,079,022	5,749,509,970	1,701,995,786	3,964,624,426	2,681,713,264	19,896,344,946	34,601,267,414
Financial Liabilities							
Deposit liabilities:							
Demand	5,283,860,801	-	-	-	-	-	5,283,860,801
Savings	-	78,678,650	78,678,650	314,714,600	472,071,899	981,224,649	1,925,368,448
Time	-	7,016,594,358	2,587,118,925	2,379,284,752	1,340,186,026	2,748,049,408	16,071,233,469
	5,283,860,801	7,095,273,008	2,665,797,575	2,693,999,352	1,812,257,925	3,729,274,057	23,280,462,718
Manager's checks	-	117,380,937	-	-	-	-	117,380,937
Bills payable	-	304,377,778	-	-	-	-	304,377,778
Accrued interest and other expenses	-	109,755,722	11,014,237	12,885,121	9,665,800	13,363,532	156,684,412
Unsecured Subordinated Debt	-	-	7,656,250	7,656,250	15,312,500	757,760,417	788,385,417
Other liabilities*	-	760,055,358	-	-	-	-	760,055,358
	P5,283,860,801	P8,386,842,803	P2,684,468,062	P2,714,540,723	P1,837,236,225	P4,500,398,006	P25,407,346,620

* Comprised of accounts payable, Marginal Deposits due to PDIC, payment orders payable, bills purchased-contra, and derivative liabilities.

	2012						Total
	On demand	Within 30 days	31 to 60 days	61 to 180 days	181 to 360 days	Over 360 days	
Financial Assets							
Financial assets at FVPL	P-	P3,365,034	P246,443	P1,381,322	P-	P395,220,835	P400,213,634
AFS investments	-	52,433,788	7,711,193	10,924,652	8,389,676	5,665,566,291	5,745,025,600
HTM investments	-	-	3,712,345	-	3,712,345	112,624,394	120,049,084
COCI	633,646,640	-	-	-	-	-	633,646,640
Loans and receivables:							
Due from BSP	-	2,029,789,775	-	-	-	-	2,029,789,775
Due from other banks	-	1,097,031,428	-	-	-	-	1,097,031,428
Interbank loans receivable and SPURA with the BSP	-	295,177,246	-	-	-	-	295,177,246
Loans and receivables:							
Loans and discounts	-	2,385,359,635	1,694,658,549	4,444,332,801	2,056,982,970	4,455,970,097	15,037,304,052
Unquoted debt securities	-	-	11,604,450	-	570,035,851	824,459,541	1,406,099,842
Accrued interest receivable	-	37,885,775	20,812,742	68,773,357	24,983,715	78,899,842	231,355,431
Accounts receivable	-	17,041,040	875,940	3,503,759	5,255,639	20,006,865	46,683,243
Receivable from stockholders	-	-	-	-	-	9,426,020	9,426,020
Sales contracts receivable	-	-	-	-	-	7,315,356	7,315,356
	633,646,640	5,918,083,721	1,739,621,662	4,528,915,891	2,669,360,196	11,569,489,241	27,059,117,351
Financial Liabilities							
Deposit liabilities:							
Demand	4,474,492,504	-	-	-	-	-	4,474,492,504
Savings	-	84,209,631	75,850,493	288,490,197	424,753,351	618,622,227	1,491,925,899
Time	-	8,277,752,055	2,112,310,474	2,769,252,202	922,075,213	3,348,964,084	17,430,354,028
	4,474,492,504	8,361,961,686	2,188,160,967	3,057,742,399	1,346,828,564	3,967,586,311	23,396,772,431
Manager's checks	-	60,842,543	-	-	-	-	60,842,543
Bills payable	-	297,251,097	-	-	-	-	297,251,097
Accrued interest and other expenses	-	107,477,979	2,536,706	10,146,823	15,220,234	30,440,468	165,822,210
Unsecured Subordinated Debt	-	-	7,656,250	7,656,250	15,312,500	444,564,236	475,189,236
Derivative liabilities	-	334,897	-	-	-	-	334,897
Other liabilities*	-	902,421,854	22,233,230	-	-	-	924,655,084
	P4,474,492,504	P9,730,290,056	P2,220,587,153	P3,075,545,472	P1,377,361,298	P4,442,591,015	P25,320,867,498

* Comprised of accounts payable, due to PDIC, payment orders payable, bills purchased-contra and derivative liabilities

Market Risk

Market risk is the risk of loss to future earnings, fair values or future cash flows as a result of changes in interest rates, foreign exchange rates, commodity prices, equity prices and other market changes. The Bank's market risk originates from its holdings of debt securities.

ALCO, chaired by the Head of Treasury, is the senior review and decision-making body for the management of all related market risks. In managing market risk, the Bank uses a framework of policies and procedures, measurement tools, controls and limits. The Treasury Group manages asset/liability risks arising from both normal banking operations and from trading operations in financial markets. Daily monitoring of compliance with the policies, procedures and limits is performed by the Market Risk Unit under RMG. The limits are annually reviewed by the ALCO and RMG and approved by the BOD. The RMG regularly reports to ALCO and to the RMC, which is a sub-committee of the BOD.

Interest rate risk

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of Earnings-at-Risk (EaR). EaR is a measure of likely earnings volatility for accrual portfolios. It is calculated as the change in income over the next 12 months, given current exposures that will result from one-year standard deviation change in interest rates, updated quarterly. EaR is calculated based on 99.00% confidence level. It is accomplished monthly, with quarterly stress test.

The following tables demonstrate the sensitivity to a reasonable possible change in interest rates of the Bank's net interest income and equity with all other variables held constant (amounts in millions).

	2013			
	Increase (Decrease) in Basis Points			
	50	100	(50)	(100)
Change in net interest income				
Loans and receivables	₱4.51	₱9.03	(₱4.51)	(₱9.03)
Deposit liabilities	(9.66)	(19.32)	9.66	19.32
As a percentage of the Bank's net interest income for the year	(1%)	(1%)	1%	1%
Change in equity*				
AFS investments	(114.20)	(253.43)	196.94	367.88

* The impact on the Bank's equity already excludes the impact of transactions affecting the statement of income.

	2012			
	Increase (Decrease) in Basis Points			
	50	100	(50)	(100)
Change in net interest income				
Loans and receivables	₱51.78	₱103.55	(₱51.78)	(₱103.55)
Deposit liabilities	(116.83)	(233.66)	116.83	233.66
As a percentage of the Bank's net interest income for the year	(5%)	(9%)	5%	9%
Change in equity*				
AFS investments	(267.70)	(504.90)	261.44	556.71

* The impact on the Bank's equity already excludes the impact of transactions affecting the statement of income.

As one of the goals in the risk management process, the Bank has set the adoption of the economic value approach in measuring the interest rate risk in the banking book to complement the earnings approach or EaR currently used.

Foreign currency risk

Foreign currency risk is the risk of an investment's value erosion due to an adverse movement in foreign exchange rates. It arises due to a mismatch in the Bank's foreign currency denominated assets and liabilities.

Foreign currency denominated deposits are generally used to fund the Bank's foreign currency denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency denominated liabilities with the foreign currency denominated assets held under the FCDU books. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held under the FCDU. As of December 31, 2013 and 2012, the Bank is in compliance with the said regulation.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following table summarizes the Bank's foreign currency denominated financial assets and financial liabilities as of December 31, 2013 and 2012. Included in the tables are the Bank assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine Peso equivalent).

	2013			2012		
	USD	Others*	Total	USD	Others*	Total
Financial Assets						
Cash and cash equivalents	₱-	₱40,196	₱40,196	₱-	₱852,465	₱852,465
Due from other banks	46,827,353	101,589,351	148,416,704	8,576,800	150,886,208	159,463,008
Total financial assets	46,827,353	101,629,547	148,456,900	8,576,800	151,738,673	160,315,473
Financial Liabilities						
Deposit liabilities	-	2,100,949	2,100,949	-	1,111,906	1,111,906
Net Exposure	₱46,827,353	₱ 99,528,598	₱146,355,951	₱8,576,800	₱150,626,767	₱159,203,567

* Consist of Euro, United Kingdom pound, Canadian dollar, Australian dollar, Hongkong dollar, New Zealand dollar, Singapore dollar, Japanese yen, Swiss Franc and Chinese Yuan.

The following table sets forth the impact of reasonably possible changes in the USD exchange rate on the Bank's net income (amounts in millions):

	2013			
	Increase (Decrease) in Currency Rates			
	5.0%	10.0%	(5.0%)	(10.0%)
USD	₱0.25	₱0.95	(₱0.25)	(₱0.95)
	2012			
	Increase (Decrease) in Currency Rates			
	5.0%	10.0%	(5.0%)	(10.0%)
USD	₱0.58	₱1.17	(₱0.58)	(₱1.17)

The increase in USD exchange rate represents depreciation of Philippine peso while the decrease in USD exchange rate represents appreciation of Philippine peso. The increase or decrease in exchange rate of other currencies is not significant.

There is no other impact in the Bank's equity other than those already affecting the statements of income.

Market Risk in the Trading Book

The Bank is exposed to the potential loss in its trading portfolio because the value of its trading positions is sensitive to changes in market prices and rates. The trading activities of the Bank include investments on fixed income securities and foreign exchange trading which exposes the bank to interest rate and foreign exchange risks. In the trading book, market risk is controlled by a daily analysis of the Value-at-Risk (VaR) of financial instruments under normal market conditions.

Objectives and limitations of the VaR methodology

The Bank uses the VaR approach in assessing the possible changes in the market value of the trading portfolio based on historical data for a rolling one year period. The VaR models are designed to measure market risk in a normal market environment. The Bank employs the use of parametric methodology or the variance-covariance method in calculating the VaR. This model assumes that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market movements may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under or overestimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

The VaR figures are backtested to validate the robustness of the VaR model. The Bank performs both the hypothetical and actual backtesting procedures. Hypothetical backtesting is done using the Qrisk system while actual backtesting is done manually using an excel worksheet. Likewise, to complement VaR measure, the Bank performs stress tests wherein the trading portfolios are valued under extreme market scenarios not covered by the confidence interval of the Bank's VaR model.

VaR assumptions/parameters

The VaR that the Bank measures is an estimate, using a confidence level of 99.00% of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99.00% confidence level means that, within a 1 day horizon, losses exceeding the VaR figure should occur, on average, not more than once every 100 days.

Since VaR is an integral part of the Bank's market risk management, VaR limits have been established annually for all financial trading activities and exposures against the VaR limits are monitored on a daily basis. Limits are based on the tolerable risk appetite of the Bank.

The Market Risk Officer of the Bank prepares a daily VaR report containing details on the VaR amount, VaR limit utilization, and VaR limit breaches, if any. This report is sent to the traders concerned, Treasury Head, Chief Risk Officer, Treasury Operations Head, and the President. Moreover, the VaR results are discussed and reported in the monthly Risk Management Committee and Executive Committee meetings.

The following table provides the VaR summary of the Bank for the years ended December 31, 2013 and 2012 (amounts in thousands):

	2013		2012	
	Foreign Exchange	Fixed Income	Foreign Exchange	Fixed Income
December 28	P70	P29,782	P798	P85,023
Average Daily	195	32,284	824	92,724
Highest	2,441	84,596	3,232	136,932
Lowest	-	5,048	10	37,440

Fixed Income VaR includes value-at-risk for investment securities denominated in currencies other than Philippine Pesos. VaR being a measure of risk in the trading book only includes Held for Trading (HFT) portfolio. The exclusion of Available-for-Sale (AFS) portfolio in the computation of VaR started in 2013. However, AFS VaR is also being computed for internal monitoring purposes. The VaR 2012 figures have been updated to make the year on year data comparable.

The Bank's trading in fixed income securities is exposed to movements in interest rates. The high and low of the total portfolio may not equal to the sum of the individual components as the high and low of the individual portfolios may have occurred on different trading days. The VaR for foreign exchange is the foreign exchange risk throughout the Bank. The Bank when aggregating the foreign exchange VaR and interest VaR does not consider the correlation effects between the two risks.

Offsetting of financial assets and financial liabilities

The amendments to PFRS 7, which is effective January 1, 2013, require the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments subject to enforceable master netting agreements or similar arrangements. The effects of these arrangements for the year ended December 31, 2012 are disclosed as follows:

Financial Instruments Recognized at End of Reporting Period by Type	December 31, 2012					
	Gross Carrying Amounts (Before Offsetting)	Gross Amounts Offset in Accordance with the Offsetting Criteria	Net Amount Presented in Statements of Financial Position [a-b]	Effect of Remaining Rights of Set-Off (Including Rights to Set Off Financial Collateral) that do not Meet PAS 32 Offsetting Criteria [d]		
				Financial Instruments	Fair Value of Financial Collateral	Net Exposure [e] = [c-d]
	[a]	[b]	[c]			
Financial Assets						
Derivative assets (Note 5)	P248,963	P-	P248,963	P150,121	P-	P98,842
Financial Liabilities						
Derivative liabilities	150,121	-	150,121	150,121	-	-

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization. Derivative assets are recorded as part of the Financial Assets at Fair Value through Profit or Loss while derivative liabilities form part of other liabilities.

Capital Management

The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the compliance with regulatory requirements and ratios is based on the amount of the “unimpaired capital” (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies that differ from PFRS in some respects.

The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both stand-alone basis (head office and branches) and consolidated basis (the parent company and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations. RWA consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

The details of CAR as of December 31, as reported to the BSP, based on BSP Circular 538 or Basel II follow (amounts in thousands):

	2013	2012
Tier 1 capital	₱1,716,200	₱1,662,308
Less: Required deductions	23,190	36,304
Sub-total	1,693,010	1,626,004
Excess from Tier 2 deducted to Tier 1 Capital*	-	-
Net Tier 1 Capital	1,693,010	1,626,004
Tier 2 capital	₱682,395	₱689,095
Less: Required deductions	-	-
Sub-total	682,395	689,095
Excess of Tier 2 deducted to Tier 1 Capital*	-	-
Net Tier 2 Capital	682,395	689,095
Total Qualifying Capital	₱2,375,405	₱2,315,099
Credit RWA	₱14,663,938	₱15,258,371
Market RWA	1,336,951	617,716
Operational RWA	1,164,088	471,283
Total RWA	₱17,164,977	₱16,347,370
Tier 1 capital ratio	9.86%	9.95%
Total capital ratio	13.84%	14.16%

*Deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital.

The Bank has complied with all externally imposed capital requirements in 2013 and 2012.

The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital, which comprises paid-up common stock, hybrid capital securities, surplus including current year profit, surplus reserves and non-controlling interest less required deductions such as unsecured credit accommodations to DOSRI, deferred income tax, and goodwill. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debt, general loan loss provision, and net unrealized gains on AFS equity investments.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on the ratings by Standard & Poor's, Moody's, Fitch and PhilRatings on exposures to Sovereigns, MDBs, Banks, LGUs, Government Corporations, Corporates.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the Bank has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Bank. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Bank. The level and structure of capital are assessed and determined in light of the Bank's business environment, plans, performance, risks and budget; as well as regulatory edicts. BSP requires submission of an ICAAP document every January 31. The Bank has complied with this requirement.

5. Fair Value Measurement

The methods and assumptions used by the Bank in estimating the fair value of the assets and liabilities of the Bank that are carried at fair value and those whose fair values are required to be disclosed are as follows:

COCI, due from BSP and other banks, RCOCI, and interbank loans - Carrying amounts approximate fair values due to the relatively short-term maturity of these investments.

Loans and receivables - Fair values are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rates for similar types of loans.

Significant unobservable inputs	Range (weighted average)
Transfer pool rate	3.52% - 7.29%
Credit spread	0.50% - 2.50%

Investment Properties - Fair values are based on the sale of similar properties and take into account the economic conditions prevailing at the time the valuations are made.

Debt securities - Fair values are generally based upon quoted market prices, if available. If the market prices are not readily available, fair values are estimated using either values obtained from adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Time deposit, bills payable, and unquoted debt obligations - Fair values of these instruments are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with the remaining liabilities being valued.

Derivative instruments - Derivatives are valued using valuation techniques that make use of market observable inputs prevailing at the statement of financial position date. For the Bank's outstanding currency swaps and foreign currency forward contracts, the discounted cash flow model is applied taking into consideration the prevailing forward exchange rates as of statement of financial position date applicable to the remaining tenor of the derivatives.

Refundable deposits - Fair value is based on discounted cash flows using the prevailing credit-adjusted interest rates.

Other financial liabilities - For financial liabilities other than time deposits and bills payable, the carrying amounts approximate fair values considering that these are due and demandable.

The table below presents a comparison by category of carrying amounts and estimated fair values of all of the Bank's assets and liabilities as of December 31, 2013 and 2012:

	2013				
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets Measured at Fair Value					
Financial Assets at FVPL:					
Government securities	₱1,272,667,748	₱1,272,667,748	₱1,272,667,748	₱-	₱-
Private bonds	284,557,521	284,557,521	284,557,521	-	-
	1,557,225,269	1,557,225,269	1,557,225,269	-	-
AFS Investments:					
Government securities	1,906,615,319	1,906,615,319	1,906,615,319	-	-
Private bonds	1,470,526,642	1,470,526,642	402,314,475	-	1,068,212,167
	3,377,141,961	3,377,141,961	2,308,929,794	-	1,068,212,167
Assets for which Fair Values are Disclosed					
HTM Investments:					
Government securities	121,203,117	153,102,506	153,102,506	-	-
Loans and Receivables					
Receivable from customers:					
Commercial lending	11,159,403,896	10,924,523,202	-	-	10,924,523,202
Consumer lending	3,994,511,755	4,348,643,792	-	-	4,348,643,792
	15,153,915,651	15,273,166,994	-	-	15,273,166,994
Other receivables	4,546,165,574	4,590,491,927	-	-	4,590,491,927
Total Loans and Receivables	19,700,081,225	19,863,658,921	-	-	19,863,658,921
Investment Properties	122,182,780	136,572,780	-	-	136,572,780
Other Assets	21,826,106	22,766,462	-	-	22,766,462
Total Assets	₱24,899,660,458	₱25,110,467,899	₱4,019,257,569	₱-	₱21,091,210,330
Liabilities for which Fair Values are Disclosed					
Deposit Liabilities	₱22,778,385,143	₱22,786,143,608	₱-	₱-	₱22,786,143,608
Bills Payable	304,377,778	304,377,778	-	-	304,377,778
Unsecured subordinated debt	500,000,000	539,286,950	-	-	539,286,950
Other liabilities	1,034,120,707	1,034,120,707	-	-	1,034,120,707
Total liabilities	₱24,616,883,628	₱24,663,929,043	₱-	₱-	₱24,663,929,043

	2012				
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets Measured at Fair Value					
Financial assets at FVPL:					
Government securities	₱272,942,414	₱272,942,414	₱272,942,414	₱-	₱-
Private bonds	119,600,353	119,600,353	119,600,353	-	-
Derivative assets	612,056	612,056	-	612,056	-
	393,154,823	393,154,823	392,542,767	612,056	-
AFS Investments:					
Government securities	3,917,080,383	3,917,080,383	3,917,080,383	-	-
Private bonds	1,695,384,818	1,695,384,818	575,271,937	-	1,120,112,881
	5,612,465,201	5,612,465,201	4,492,352,320	-	1,120,112,881
Assets for which Fair Values are Disclosed					
HTM Investments:					
Government securities	112,624,394	163,264,306	163,264,306	-	-
Loans and Receivables					
Receivable from customers:					
Commercial lending	10,430,566,103	10,502,011,231	-	-	10,502,011,231
Consumer lending	3,974,635,604	4,287,242,326	-	-	4,287,242,326
	14,405,201,707	14,789,253,557	-	-	14,789,253,557
Other receivables	5,109,193,439	6,296,229,697	-	-	6,296,229,697
Total Loans and Receivables	19,514,395,146	21,085,483,254	-	-	21,085,483,254
Investment Properties	121,944,300	167,235,292	-	-	167,235,292
Other Assets	23,090,334	21,496,272	-	-	21,496,272
Total Assets	₱25,777,674,198	₱27,443,099,148	₱5,048,159,393	₱612,056	₱22,394,327,699
Liabilities Measured at Fair Value					
Derivative Liabilities	₱334,897	₱334,897	₱-	₱334,897	₱-
Liabilities for which Fair Values are Disclosed					
Deposit Liabilities	23,370,201,718	23,393,096,444	-	-	23,393,096,444
Bills Payable	297,251,097	297,251,097	-	-	297,251,097
Unsecured subordinated debt	500,000,000	571,894,902	-	-	571,894,902
Other liabilities	1,129,287,299	1,129,287,299	-	-	1,129,287,299
Total liabilities	₱25,297,075,011	₱25,391,864,639	₱-	₱334,897	₱25,391,529,742

There were no transfers between levels of fair value measurements in 2013 and 2012.

The significant unobservable input used in the valuation of AFS private bonds is the credit spread. Shown below is the impact to equity if the credit spread used increases or decreases by 5 %.

	Increase (Decrease) in Credit Spread	2013	2012
Private bonds	+5.00%	(₱1,740,579)	(₱2,070,121)
	-5.00%	1,740,579	2,070,121

Derivative Instruments

On September 23, 2009, the BSP approved the Bank's application for a Type 3 Limited User derivatives authority which allows the Bank, as an end-user, to enter into derivative transactions for purposes other than hedging.

During 2012, the Bank entered into the following derivative transactions:

Non-deliverable currency forwards

Non-deliverable currency forward contracts (NDFs) are contractual agreements to buy or sell a specified currency at a specific rate and date in the future. These are customized contracts transacted in the over-the-counter market where the settlement, at maturity, between

counterparties is based on the actual profit or loss on the contract, calculated as the difference between the spot exchange rate and the agreed forward rate.

Currency swaps

A currency swap is an agreement to exchange amounts in different currencies based on the spot rate at trade date and to re-exchange the same currencies at a future date based on an agreed rate.

As of December 31, 2013, the Bank has no outstanding derivative transactions. As of December 31, 2012, the Bank had outstanding positions as follows:

	2012		
	Notional Amounts	Derivative Assets (Note 7)	Derivative Liabilities (Note 19)
Forward Sell USD currency swaps	\$6,000,000	₱363,093	₱184,776
Forward Buy USD NDFs	\$6,000,000	248,963	150,121
		₱612,056	₱334,897

In 2012, the weighted average contract rates for the outstanding currency swaps and NDFs are ₱40.92 and ₱40.87, respectively. Changes in fair value of derivative transactions amounted to gains of ₱0.3 million in 2013 and ₱3.0 million in 2012.

6. Interbank Loans Receivable and Securities Purchased Under Resale Agreements with the Bangko Sentral ng Pilipinas

The Bank extends short-term loans with maturities of up to three months to local and foreign banks with interest rates ranging from 2.00% to 3.75% and 0.01% to 1.40%, respectively, in 2013 and 0.13% to 4.56% and 0.01% to 1.10%, respectively, in 2012. As of December 31, 2013 and 2012, the Bank has interbank loans receivable amounting to ₱11.5 million and ₱295.2 million, respectively. Interest income on interbank loans receivable amounted to ₱6.4 million in 2013 and ₱4.2 million in 2012.

The outstanding SPURA with the BSP as of December 31, 2011 amounting to ₱1.9 billion matured in 2012. Interest income earned from SPURA with the BSP amounted to ₱59.6 million in 2012. As of December 31, 2013 and 2012, the Bank has no outstanding SPURA with the BSP.

7. Financial Assets at Fair Value through Profit or Loss

As of December 31, 2013 and 2012, this account consists of the following held-for-trading (HFT) investments and derivative assets:

	2013	2012
Government securities	₱1,272,667,748	₱272,942,414
Private bonds	284,557,521	119,600,353
Derivative assets (Note 5)	–	612,056
	₱1,557,225,269	₱393,154,823

As of December 31, 2013 and 2012, the Bank's net unrealized losses on FVPL securities amounted to ₱86.4 million and ₱4.4 million, respectively. Trading gains in 2013 and 2012 amounted to ₱318.9 million and ₱165.0 million, respectively. Peso-denominated HFT securities bear effective interest rates ranging from 2.80% to 6.30% in 2013 and 4.50% to 6.50% in 2012, while foreign currency-denominated HFT securities bear effective interest rates ranging from 2.10% to 6.00% in 2013 and 2.10% to 12.40% in 2012. Interest income earned in 2013 and 2012 amounted to ₱112.8 million and ₱160.3 million, respectively.

8. Available-for-Sale Investments

The Bank's AFS investments consist of the following:

	2013	2012
Government securities (Note 27)	₱1,906,615,319	₱3,917,080,383
Private bonds	1,470,526,642	1,695,384,818
Unquoted equity security	16,073,463	16,073,463
	₱3,393,215,424	₱5,628,538,664

Unquoted equity security pertains to investment in Bancnet shares. There is no active market for this investment and the Bank intends to hold it for the long-term.

Peso-denominated AFS investments bear effective interest rates ranging from 2.00% to 7.30% in 2013 and 2.00% to 5.70% in 2012, while foreign currency-denominated AFS investments bear effective interest rates ranging from 1.90% to 8.30% in 2013 and 2.40% to 8.10% in 2012. Interest income earned in 2013 and 2012 amounted to ₱170.3 million and ₱241.2 million, respectively.

The movements in net unrealized gains (losses) on AFS investments of the Bank follow:

	2013	2012
Balance at beginning of year	₱155,975,555	(₱156,607)
Changes in fair value during the year	(113,775,087)	363,135,815
Gains taken to profit and loss	(225,931,172)	(207,307,450)
Amortization of unrealized losses on reclassified AFS investments	756,435	303,797
Subtotal	(338,949,824)	156,132,162
Balance at end of year	(₱182,974,269)	₱155,975,555

As of December 31, 2013 and 2012, the Bank's net unrealized gains (losses) on AFS investments includes unrealized losses on reclassified AFS investments amounting to ₱7.1 million and ₱7.9 million, respectively.

Reclassification of AFS investments

As allowed under PAS 39, the Bank identified certain eligible AFS investments for which it had a clear change of intent to hold these financial assets until maturity in order to adequately manage its net interest earning streams by matching these securities against its core funding, as defined under its existing risk management measurements and parameters.

On July 1, 2008, the Bank reclassified USD-denominated investment securities with face amount totaling USD2.3 million and effective interest of 6.80% from AFS investments to HTM investments.

The reclassification is also compliant with the criteria and rules set forth in BSP Circular Nos. 626 and 628 as well as those provided in SEC Memorandum Circular No. 10, Series of 2008, on Amendments to PAS 39 and PFRS 7.

As of December 31, 2013, the carrying amount and fair value of financial assets reclassified out of AFS investments to HTM investments amounted to ₱121.2 million and ₱153.1 million, respectively. As of December 31, 2012, the carrying amount and fair value of financial assets reclassified out of the AFS investments to HTM investments amounted to ₱112.6 million and ₱163.3 million, respectively.

Prior to reclassification, the fair value loss on the reclassified AFS investments recognized in 'Net unrealized gains (losses) on AFS investments' reported under the equity section of the statement of financial position amounted to ₱9.7 million. Had the reclassification not been made, the fair value loss recognized in 'Net unrealized gains (losses) on AFS investments' would have decreased by ₱23.1 million in 2013 and ₱44.5 million in 2012. As of December 31, 2013 and 2012, the Bank expects to recover the entire cash flows of these reclassified financial assets.

9. Held-to-Maturity Investments

The Bank's HTM investments consist of the following:

	2013	2012
Government securities:		
Face value	₱102,108,500	₱94,415,000
Unamortized premium	19,094,617	18,209,394
	₱121,203,117	₱112,624,394

As of December 31, 2013 and 2012, HTM investments pertain to Republic of the Philippines bonds that will mature on February 2, 2030. The bonds bear effective interest rate of 7.47%.

Interest income earned on HTM investments in 2013 and 2012 amounted to ₱8.4 million and ₱8.8 million, respectively.

10. Loans and Receivables

This account consists of:

	2013	2012
Loans and discounts		
Corporate	₱11,019,942,319	₱10,066,447,465
Consumer	4,198,186,944	4,112,514,657
Less unearned discounts and capitalized interest	4,742,412	3,091,923
	15,213,386,851	14,175,870,199
Unquoted debt securities	760,596,499	1,392,343,929
Accrued interest receivable	318,021,829	231,355,431
Bills purchased	242,665,439	422,835,544
Accounts receivable (Forward)	45,035,868	46,683,243

	2013	2012
Sales contracts receivable	₱16,399,178	₱7,315,356
Receivable from stockholders (Note 26)	–	9,426,020
	16,596,105,664	16,285,829,722
Less allowance for credit losses	302,136,639	193,504,036
	₱16,293,969,025	₱16,092,325,686

Receivables from customers consist of:

	2013	2012
Loans and discounts	₱14,113,178,400	₱13,563,318,473
Receivables purchased	771,759,255	311,692,479
Customers' liabilities under letters of credit and trust receipts	333,191,608	303,951,170
Bills purchased	242,665,439	422,835,544
	15,460,794,702	14,601,797,666
Less unearned discounts and capitalized interest	4,742,412	3,091,923
	₱15,456,052,290	₱14,598,705,743

Unquoted debt securities consist of the following:

	2013	2012
Private bonds:		
Face value	₱765,232,549	₱1,420,444,412
Unamortized discount	(4,636,050)	(28,100,483)
	₱760,596,499	₱1,392,343,929

Unquoted debt securities bear effective interest rates ranging from 3.90% to 4.10% in 2013 and 2012.

As of December 31, 2013 and 2012, Accounts receivable includes amounts due from officers relating to the Bank's car plan for employees of ₱27.4 million and ₱25.0 million, respectively.

The movements in the Bank's allowance for credit losses on loans and receivables follow:

	2013		
	Corporate Lending	Consumer Lending	Total
Balance at beginning of year	₱55,624,983	₱137,879,053	₱193,504,036
Write-offs	–	(1,520,712)	(1,520,712)
Provision for credit losses during the year	42,836,467	67,316,848	110,153,315
Balance at end of year	₱98,461,450	₱203,675,189	₱302,136,639
Individual impairment	₱90,956,010	–	₱90,956,010
Collective impairment	7,505,440	203,675,189	211,180,629
	₱98,461,450	₱203,675,189	₱302,136,639
Gross amount of loans individually determined to be impaired	₱113,290,096	–	₱113,290,096

	2012		
	Corporate Lending	Consumer Lending	Total
Balance at beginning of year	₱58,059,176	₱164,923,009	₱222,982,185
Write-offs	(6,345,136)	(101,144,151)	(107,489,287)
Provision for credit losses during the year	3,910,943	74,100,195	78,011,138
Balance at end of year	₱55,624,983	₱137,879,053	₱193,504,036
Individual impairment	₱53,375,819	₱-	₱53,375,819
Collective impairment	2,249,164	137,879,053	140,128,217
	₱55,624,983	₱137,879,053	₱193,504,036
Gross amount of loans individually determined to be impaired	₱107,329,040	₱-	₱107,329,040

The following table shows information relating to receivables from customers by collateral (at gross amounts):

	2013		2012	
	Amount	%	Amount	%
Secured by:				
Real estate mortgage	₱2,792,679,716	18.06	₱2,519,805,369	17.26
Chattel mortgage	1,503,720,712	9.73	1,884,594,650	12.90
Deposits	1,689,218,752	10.93	1,104,737,478	7.57
Others	398,936,414	2.58	890,305,440	6.10
	6,384,555,594	41.30	6,399,442,937	43.83
Unsecured	9,076,239,108	58.70	8,202,354,729	56.17
	₱15,460,794,702	100.00	₱14,601,797,666	100.00

As of December 31, 2013 and 2012, information on the concentration of credit (at gross amounts) as to industry follow:

	2013		2012	
	Amount	%	Amount	%
Other community, social and personal activities	₱3,611,066,364	23.36	₱4,004,977,906	27.43
Real estate	3,482,682,609	22.53	3,321,424,443	22.75
Manufacturing (various industries)	1,987,025,510	12.85	2,535,726,223	17.37
Wholesale and retail trade	3,638,902,449	23.54	2,201,438,618	15.08
Financial intermediaries	1,482,632,384	9.59	853,992,735	5.85
Agricultural, hunting and forestry	454,709,850	2.94	566,219,502	3.88
Transportation, storage and communication	375,181,642	2.43	527,917,515	3.62
Construction	321,641,892	2.08	497,059,098	3.40
Mining and quarrying	21,391,738	0.14	68,960,802	0.47
Hotel and restaurants	85,060,264	0.55	20,656,750	0.14
Electricity, gas and water supply	500,000	0.00	3,424,074	0.02
Total	₱15,460,794,702	100.00	₱14,601,797,666	100.00

Thrift banks are not covered by the loan concentration limit of 30.00% as prescribed by the BSP.

Current banking regulations allow banks with no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those loans classified as loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said loans shall not be accrued.

NPLs shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This applies to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof is considered nonperforming.

In the case of receivables that are payable in monthly installments, the total outstanding balance is considered nonperforming when three 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 is 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 is considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total receivable balance.

As of December 31, 2012, under previous banking regulations, NPLs of the Bank net of those which are fully provided with allowance for credit losses amounted to ₱869.9 million.

As of December 31, 2013, based on the revised definition of NPL under Circular No. 772, gross and net NPLs of the Bank as reported to BSP amounted to ₱779.1 million and ₱466.1 million respectively. As of December 31, 2013, gross and net NPL ratios of the Bank are 5.03% and 3.01%, respectively.

As of December 31, 2013 and 2012, breakdown of the Bank's NPLs as to secured and unsecured follows:

	2013	2012
Secured	₱300,401,345	₱305,746,114
Unsecured	478,710,074	564,190,849
	₱779,111,419	₱869,936,963

Restructured loans which do not meet the requirements to be treated as performing receivables are also considered as NPLs. As of December 31, 2013 and 2012, the Bank's restructured loans amounted to ₱28.0 million and ₱18.5 million, respectively, while interest income on these restructured receivables amounted to ₱4.4 million and ₱5.1 million, respectively.

The details of interest income on loans and receivables follow:

	2013	2012
Corporate loans	₱667,841,627	₱627,248,011
Consumer loans	466,362,733	518,985,100
Unquoted debt securities	59,451,005	66,746,876
Bills discounted	34,438,447	39,347,432
Domestic bills	25,745,978	17,101,450
Sales contracts receivable	1,191,151	475,111
	₱1,255,030,941	₱1,269,903,980

Of the total loans and receivables as of December 31, 2013 and 2012, 66.20% and 51.70%, respectively, are subject to periodic interest repricing. Remaining peso-denominated loans earn annual fixed interest rates ranging from 3.50% to 24.00% in 2013 and 3.80% to 24.00% in 2012.

11. Property and Equipment

The composition of and movements in this account are as follows:

	2013				
	Land	Building and Condominium Units	Furniture and Equipment	Leasehold Improvement	Total
Cost					
Balance at beginning of year	P164,344,500	P233,010,767	P451,392,174	P220,440,805	P1,069,188,246
Additions	–	2,942,816	65,945,697	26,251,280	95,139,793
Disposals	–	(130,000)	(17,985,679)	(17,888,943)	(36,004,622)
Reclassifications	–	–	(264,235)	264,235	–
Balance at end of year	164,344,500	235,823,583	499,087,957	229,067,377	1,128,323,417
Accumulated Depreciation and Amortization					
Balance at beginning of year	–	40,067,821	321,436,279	100,571,277	462,075,377
Depreciation and amortization	–	11,872,361	79,274,386	40,517,538	131,664,285
Disposals	–	–	(11,247,560)	(9,322,137)	(20,569,697)
Reclassifications	–	–	(118,146)	118,146	–
Balance at end of year	–	51,940,182	389,344,959	131,884,824	573,169,965
Accumulated Impairment					
Balance at beginning and end of year	–	2,667,217	–	–	2,667,217
Net Book Value at End of Year	P164,344,500	P181,216,184	P109,742,998	P97,182,553	P552,486,235

	2012				
	Land	Building and Condominium Units	Furniture and Equipment	Leasehold Improvement	Total
Cost					
Balance at beginning of year	P164,344,500	P230,426,293	P399,734,027	P185,610,540	P980,115,360
Additions	–	2,584,474	85,246,014	34,830,265	122,660,753
Disposals	–	–	(33,587,867)	–	(33,587,867)
Balance at end of year	164,344,500	233,010,767	451,392,174	220,440,805	1,069,188,246
Accumulated Depreciation and Amortization					
Balance at beginning of year	–	28,356,430	244,375,241	73,194,605	345,926,276
Depreciation and amortization	–	11,711,391	88,579,704	27,376,672	127,667,767
Disposals	–	–	(11,518,666)	–	(11,518,666)
Balance at end of year	–	40,067,821	321,436,279	100,571,277	462,075,377
Accumulated Impairment					
Balance at beginning and end of year	–	2,667,217	–	–	2,667,217
Net Book Value at End of Year	P164,344,500	P190,275,729	P129,955,895	P119,869,528	P604,445,652

Gain from sale of property and equipment recognized under 'Profit from assets sold or acquired - net' in the statements of income amounted to P0.4 million and P0.2 million in 2013 and 2012, respectively. As of December 31, 2013 and 2012, the cost of fully depreciated assets still in use by the Bank amounted to P129.0 million and P49.6 million, respectively.

12. Investment Properties

The composition of and movements in this account follow:

	2013		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	P52,177,985	P91,769,885	P143,947,870
Additions	4,146,060	50,806,209	54,952,269
Disposals	(16,268,880)	(21,928,918)	(38,197,798)
Balance at end of year	40,055,165	120,647,176	160,702,341
Accumulated Depreciation and Amortization			
Balance at beginning of year	–	17,973,331	17,973,331
Depreciation and amortization	–	10,494,419	10,494,419
Disposals	–	(6,144,792)	(6,144,792)
Balance at end of year	–	22,322,958	22,322,958
Accumulated Impairment			
Balance at beginning of year	426,600	3,603,639	4,030,239
Provision for impairment losses during the year	2,222,747	10,370,217	12,592,964
Disposals	(426,600)	–	(426,600)
Balance at end of year	2,222,747	13,973,856	16,196,603
Net Book Value at End of Year	P37,832,418	P84,350,362	P122,182,780

	2012		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	P64,509,185	P103,710,934	P168,220,119
Additions	14,740,000	18,236,479	32,976,479
Disposals	(27,071,200)	(30,177,528)	(57,248,728)
Balance at end of year	52,177,985	91,769,885	143,947,870
Accumulated Depreciation and Amortization			
Balance at beginning of year	–	15,153,751	15,153,751
Depreciation and amortization	–	8,582,730	8,582,730
Disposals	–	(5,763,150)	(5,763,150)
Balance at end of year	–	17,973,331	17,973,331
Accumulated Impairment			
Balance at beginning of year	426,600	5,622,148	6,048,748
Disposals	–	(2,018,509)	(2,018,509)
Balance at end of year	426,600	3,603,639	4,030,239
Net Book Value at End of Year	P51,751,385	P70,192,915	P121,944,300

The Bank's investment properties include real estate properties acquired in settlement of loans and receivables. The difference between the fair value of the assets upon foreclosure and the carrying value of the loans amounting to gain of ₱14.7 million in 2013 and ₱1.0 million in 2012 was recognized under 'Profit from assets sold or acquired - net' in the statements of income. As of December 31, 2013 and 2012, the Bank's investment properties amounting to ₱122.2 million and ₱22.9 million, respectively, are still subject to redemption. Gain on sale or redemption of investment properties amounting to ₱7.8 million in 2013 and ₱8.5 million in 2012 is included under 'Profit from assets sold or acquired - net' in the statements of income.

Annually, management reviews the recoverable amount of investment properties. Several factors are considered such as real estate prices and the physical condition of these properties. The aggregate market value of the Bank's investment properties as of December 31, 2013 and 2012 amounted to ₱136.6 million and ₱167.2 million, respectively, as determined by independent and/or in-house appraisers using market data approach. Provision for impairment of investment properties is included in 'Provision for credit and impairment losses' in the statements of income.

Direct operating expenses, pertaining to depreciation and amortization and repairs and maintenance (see Note 23), incurred on investment properties amounted to ₱39.8 million and ₱23.1 million in 2013 and 2012, respectively.

13. Branch Licenses

On January 16, 2007, the Bank purchased from BPI Family Savings Bank fourteen (14) branch licenses amounting to ₱57.5 million, including ₱5.5 million licensing fees paid to the BSP. Seven (7) branch licenses are in restricted areas and the other seven (7) are in unrestricted areas. On May 16, 2007, the Monetary Board of the BSP approved the acquisition of these branches and granted the Bank the authority to operate under certain conditions.

On February 14, 2008, the Bank purchased additional branch licenses from the BSP amounting to ₱38.6 million.

In 2009, the Bank opened 5 additional branches in the unrestricted areas and incurred licensing fees amounting to ₱1.3 million.

In 2009, the Bank acquired additional branch licenses amounting to ₱128.0 million as a result of its acquisition of CSB (see Note 1).

As of December 31, 2013 and 2012, the Bank has a total of 38 and 36 branches, respectively. Eighteen (18) of the branches as of December 31, 2013 and 2012 are in restricted areas. For those branch licenses with fair value less cost-to-sell lower than the carrying amount, the Bank's impairment test is based on value-in-use calculations that use a discounted cash flow model. The respective branches have been identified as the CGU for purposes of impairment testing of branch licenses.

The recoverable amount of the CGU has been determined based on cash flow projections from financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 8.40% in 2013 and 9.40% in 2012 and cash flows beyond the five year-period are extrapolated using a steady growth rate of 4.60% in 2013 and 2012, which does not exceed the long-term average growth rate for the industry.

The calculation of the value-in-use of the CGU is most sensitive to the following assumptions:

- Discount rates
- Steady growth rate used to extrapolate cash flows beyond the budget period
- Local inflation rates

With regard to the assessment of value-in-use of the CGU, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the branch licenses to materially exceed its recoverable amount.

14. Other Assets

This account consists of:

	2013	2012
Prepaid expenses	₱47,519,738	₱44,851,613
Refundable deposits	20,379,674	23,090,334
Chattel mortgage properties	11,698,498	22,435,023
Documentary stamp tax	6,573,061	5,194,403
Other investments	4,663,333	7,252,978
Creditable withholding tax	4,523,089	-
Deferred lease expense	2,225,467	3,054,255
RCOCI	1,446,432	309,567
Supplies on hand	797,113	1,017,298
Recoverable tax payments	227,636	4,093,424
Miscellaneous	10,596,183	9,234,566
	₱110,650,224	₱120,533,461

The movements in the Bank's chattel mortgage properties follow:

	2013	2012
Cost		
Balance at beginning of year	₱24,921,915	₱63,310,168
Additions	70,771,323	80,874,576
Disposals	(82,234,763)	(119,262,829)
Balance at end of year	13,458,475	24,921,915
Accumulated Depreciation		
Balance at beginning of year	2,486,892	11,615,864
Depreciation	9,106,813	15,888,595
Disposals	(9,833,728)	(25,017,567)
Balance at end of year	1,759,977	2,486,892
Net Book Value at End of Year	₱11,698,498	₱22,435,023

Chattel mortgage properties refer to automobiles acquired by the Bank in settlement of loans and receivables. The difference between the fair values upon foreclosure and the carrying value of the loans amounting to losses of ₱19.8 million and ₱15.2 million in 2013 and 2012, respectively, are recognized as under 'Profit from assets sold or acquired - net' in the statements of income. Gain on sale of chattel mortgage properties amounted to ₱12.0 million in 2013 and ₱8.6 million in 2012. This is also presented under 'Profit from assets sold or acquired - net' in the statements of income.

Prepaid expenses include prepaid rentals, group life insurance, retainer's fee and employee benefits related to the Bank's car plan for its officers.

Refundable deposits include non-interest bearing rental deposits. Unamortized discount on refundable deposits as of December 31, 2013 and 2012 amounted to ₱7.3 million and ₱5.6 million, respectively. Accretion recognized under 'Interest income - deposits in banks and others' in the statements of income amounted to ₱0.9 million ₱0.8 million in 2013 and 2012.

Other investments include membership fees in Bancnet, Credit Management Association of the Philippines, and Avega Managed Care, Inc.

Deferred lease expense pertains to the difference between the nominal value of the refundable deposit and its fair value at inception. This is expensed on a straight-line basis over the lease term.

Recoverable tax payments represent the balance of the excess tax payments for the year 1999 for which the Bank has exercised its option to carry over and apply as tax credits in the succeeding taxable years. In a Petition for Review submitted by the Bank to the Court of Tax Appeals (CTA) on July 28, 2003, the Bank has claimed for a refund or issuance of a tax credit certificate in the amount of ₱27.1 million, representing overpaid income tax for the calendar year 1999. The Bank, however, has already exercised its option to carry over the 1999 excess tax credits to the succeeding year and is therefore, no longer entitled to claim for the refund or issuance of a tax credit certificate. The CTA cited the provision under Section 76 of the 1997 Tax Code which states that if a corporation exercises the option to carry over its excess tax credits to the succeeding years, the option becomes irrevocable for the taxable period and no application for cash refund or issuance of a tax credit certificate shall be allowed. The Bank, however, may still claim the excess income tax payments as a tax credit against future income tax liabilities.

Miscellaneous assets consist mainly of the deposit with a health care agency for the establishment of the Bank's employee health plan.

15. Deposit Liabilities

BSP Circular 753 which took effect on April 6, 2012, promulgated the unification of the statutory and liquidity reserve requirements on non-FCDU deposit liabilities from 8.00% to 6.00%. As mandated by the Circular, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements, thereby excluding government securities and cash in vault as eligible reserves. Further, deposits maintained with the BSP in compliance with the reserve requirement shall no longer be paid interest. As of December 31, 2013 and 2012, the Bank was in compliance with such regulations.

As reported to the BSP, the available reserves as of December 31, 2013 and 2012 are as follows:

	2013	2012
Due from BSP - Demand deposit account	₱1,358,008,514	1,269,551,219

Interest expense on deposit liabilities are as follows:

	2013	2012
Demand	₱12,847,642	₱15,790,275
Savings	10,940,562	15,025,143
Time	693,545,377	839,518,621
	₱717,333,581	₱870,334,039

As of December 31, 2013 and 2012, 68.62% and 74.53% of total deposit liabilities are subject to periodic interest repricing, respectively. Remaining fixed peso-denominated deposit liabilities bear annual fixed interest rates ranging from 0.25% to 4.25% and 0.50% to 5.50% in 2013 and 2012, respectively, while dollar-denominated deposit liabilities bear annual fixed interest rates ranging from 0.25% to 3.90% and 0.50% to 3.90% in 2013 and 2012, respectively.

16. Bills Payable

As of December 31, 2013 and 2012, bills payable consists of BSP rediscounted loans with interest rate of 3.56% in 2013 and 3.50% in 2012. Interest expense on bills payable amounted to ₱9.6 million in 2013 and ₱9.1 million in 2012.

17. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2013	2012 (As restated)
Accrued other expenses		
Rent	₱32,610,618	₱32,073,002
Compensation and other benefits	27,763,458	27,148,415
Professional fees	3,782,156	6,128,336
Security, messengerial and janitorial	3,501,404	2,761,147
Utilities and leased line	3,109,035	4,984,809
Travel and transportation	3,006,370	7,503,121
ATM related payables	1,467,116	3,033,930
Others	8,622,890	6,332,678
	83,863,047	89,965,438
Accrued interest payable	72,821,365	75,856,772
Retirement liability (Note 22)	48,213,901	48,569,826
Gross receipts tax	7,560,794	9,498,555
	₱212,459,107	₱223,890,591

Accrued other expenses - Others pertains to accrued expenses for insurance, publications, repairs and maintenance and other staff costs and expenses.

18. Unsecured Subordinated Debt

On January 5, 2012, the Monetary Board of the BSP, in its Resolution No. 30, approved the Bank's issuance of Unsecured subordinated debt with aggregate principal amount of ₱500.0 million. The Unsecured subordinated debt, which was issued on May 30, 2012, bears interest of 6.125% per annum, payable quarterly.

The Unsecured subordinated debt will mature after 10 years from issuance date but may be called by the Bank on any interest payment date after the 5th year of issuance at principal amount plus accrued interest.

Interest expense on Unsecured subordinated debt amounted to ₱30.6 million in 2013 and ₱18.1 million in 2012.

19. Other Liabilities

This account consists of:

	2013	2012
Accounts payable		
Cash cards	₱296,391,708	₱270,211,214
Chattel mortgage, insurance and loan service fees	128,037,097	93,002,053
Bancnet and VISA	28,914,023	15,225,430
Others	41,714,306	100,009,546
Bills purchased - contra (Note 10)	242,665,439	422,835,544
Due to PDIC	21,419,617	23,506,671
Withholding taxes payable	14,001,559	13,973,280
Marginal deposit	2,727,806	2,053,092
SSS, Medicare, Pagibig	2,109,520	1,801,486
Payment orders payable	913,168	637,733
Derivative liabilities (Note 5)	–	334,897
Miscellaneous	10,904,170	9,638,251
	₱789,798,413	₱953,229,197

Due to PDIC pertains to the Bank's insurance premium payable on deposit liabilities, which was subsequently paid a month after the statement of financial position date.

Accounts Payable - Others pertain to stale checks, incoming dollar remittances to the Bank for payment to various payees as part of its intermediary services and remaining balances on purchases of property and equipment.

20. Maturity Profile of Assets and Liabilities

The following tables present the assets and liabilities as of December 31, 2013 and 2012 analyzed according to whether they are expected to be recovered or settled within twelve months or over twelve months from the statement of financial position date:

	2013			2012 (As restated)		
	Within twelve months	Over twelve months	Total	Within twelve months	Over twelve months	Total
Financial Assets						
Cash and other cash items	₱607,009,022	₱–	₱607,009,022	₱633,646,640	₱–	₱633,646,640
Due from BSP	2,737,379,105	–	2,737,379,105	2,029,551,219	–	2,029,551,219
Due from other banks	657,268,106	–	657,268,106	1,097,031,428	–	1,097,031,428
Interbank loans receivable	11,464,989	–	11,464,989	295,177,246	–	295,177,246
Financial assets at FVPL (Note 7)	1,557,225,269	–	1,557,225,269	393,154,823	–	393,154,823
AFS investments (Note 8)	36,781,448	3,356,433,976	3,393,215,424	8,308,426	5,620,230,238	5,628,538,664
HTM investments (Note 9)	–	121,203,117	121,203,117	–	112,624,394	112,624,394
Loans and receivable - gross (Note 10)	10,253,166,417	6,347,681,659	16,600,848,076	10,124,976,773	6,163,944,872	16,288,921,645
Other assets (Note 14)	21,826,106	–	21,826,106	23,399,901	–	23,399,901
	15,882,120,462	9,825,318,752	25,707,439,214	14,605,246,456	11,896,799,504	26,502,045,960
Nonfinancial assets						
Property and equipment - cost (Note 11)	–	1,128,323,417	1,128,323,417	–	1,069,188,246	1,069,188,246
Investment properties - cost (Note 12)	–	160,702,341	160,702,341	–	143,947,870	143,947,870
Branch licenses (Note 13)	–	225,390,000	225,390,000	–	225,390,000	225,390,000
Other assets (Note 14)	–	90,584,095	90,584,095	72,211,645	27,408,807	99,620,452
	–	1,604,999,853	1,604,999,853	72,211,645	1,465,934,923	1,538,146,568
	15,882,120,462	11,430,318,605	27,312,439,067	14,677,458,101	13,362,734,427	28,040,192,528
Less allowance for credit and impairment losses (Notes 10, 11, and 12)	–	321,000,459	321,000,459	–	200,201,492	200,201,492
Accumulated depreciation and amortization (Notes 11, 12, 14)	–	597,252,900	597,252,900	–	482,535,600	482,535,600
Unearned discounts and capitalized interest (Note 10)	–	4,742,412	4,742,412	–	3,091,923	3,091,923
	–	922,995,771	922,995,771	–	685,829,015	685,829,015
	₱15,882,120,462	₱10,507,322,834	₱26,389,443,296	₱14,677,458,101	₱12,676,905,412	₱27,354,363,513
Financial liabilities						
Deposit liabilities:						
Demand	₱5,283,860,801	₱–	₱5,283,860,801	₱2,686,527,916	₱1,787,964,588	₱4,474,492,504
Savings	888,487,694	974,969,471	1,863,457,165	864,972,416	611,928,337	1,476,900,753
Time	13,313,489,177	2,317,578,000	15,631,067,177	14,069,937,723	3,348,870,738	17,418,808,461
	19,485,837,672	3,292,547,471	22,778,385,143	17,621,438,055	5,748,763,663	23,370,201,718
Manager's checks	117,380,937	–	117,380,937	60,842,543	–	60,842,543
Bills payable	304,377,778	–	304,377,778	297,251,097	–	297,251,097
Accrued interest, taxes and other expenses (Note 17)	156,684,412	–	156,684,412	165,822,210	–	165,822,210
Unsecured Subordinated Debt	–	500,000,000	500,000,000	–	500,000,000	500,000,000
Derivative liabilities (Note 5)	–	–	–	334,897	–	334,897
Other liabilities (Note 19)	760,055,358	–	760,055,358	925,428,191	–	925,428,191
	₱20,824,336,157	₱3,792,547,471	₱24,616,883,628	₱19,071,116,993	₱6,248,763,663	₱25,319,880,656
Nonfinancial liabilities						
Deferred tax liability - net	–	24,623,290	24,623,290	–	18,924,080	18,924,080
Accrued taxes and other expenses (Note 17)	7,560,794	48,213,901	55,774,695	9,498,555	48,569,826	58,068,381
Income tax payable	–	–	–	2,638,390	–	2,638,390
Other liabilities (Note 19)	29,743,055	–	29,743,055	27,466,109	–	27,466,109
	37,303,849	72,837,191	110,141,040	39,603,054	67,493,906	107,096,960
	₱20,861,640,006	₱3,865,384,662	₱24,727,024,668	₱19,110,720,047	₱6,316,257,569	₱25,426,977,616

21. Leases

The Bank leases the premises occupied by its branches for periods ranging from 5 to 12 years from the contract dates and are renewable under certain terms and conditions. The rent expense included under 'Occupancy and equipment-related expenses' in the statements of income amounted to ₱82.98 million in 2013 and ₱74.7 million in 2012.

The contracts require the Bank to pay the lessors security deposits, which are noninterest-bearing and are refundable upon termination of the lease agreements (see Note 14).

The following table presents the minimum lease payable of the Bank for non-cancellable leases:

	2013	2012
Within 1 year	₱12,785,300	₱14,382,952
More than 1 year but not more than 5 years	37,027,931	46,047,620
More than 5 years	–	1,542,036
	₱49,813,231	₱61,972,608

22. Retirement Plan

Republic Act (RA) No. 7641, *Retirement Pay Law*, requires provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than what is provided under the law. The law does not require minimum funding of the plan.

The Bank has a funded, noncontributory defined benefit retirement plan covering all of its officers and regular employees. Under this retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The latest actuarial valuation study of the retirement plan is as of December 31, 2013.

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

	2013	2012
Discount rate	6.38%	6.11%
Future salary increases	4.50%	5.00%
Average expected future years of service	25.90	26.30

Changes in net defined benefit liability are as follows:

	2013			2012		
	Fair Value of Plan Assets	Present Value of Defined Benefit Obligation	Net Defined Benefit Asset (Liability)	Fair Value of Plan Assets	Present Value of Defined Benefit Obligation	Net Defined Benefit Asset (Liability)
Balance at January 1	₱–	₱48,569,826	(₱48,569,826)	₱–	₱37,846,664	(₱37,846,664)
Retirement expense:						
Current service cost	–	12,673,377	(12,673,377)	–	12,116,044	(12,116,044)
Net interest	152,750	2,967,616	(2,814,866)	–	2,475,172	(2,475,172)
Retirement expense	152,750	15,640,993	(15,488,243)	–	14,591,216	(14,591,216)
Contributions to the retirement fund	5,000,000	–	5,000,000	–	–	–
Benefits paid	–	(4,233,488)	4,233,488	–	–	–
Remeasurements:						
Actuarial change due to:						
Experience adjustments	–	(3,752,811)	3,752,811	–	2,504,781	(2,504,781)
Financial assumptions	–	(3,141,750)	3,141,750	–	1,704,430	(1,704,430)
Demographic assumptions	–	–	–	–	(8,077,265)	8,077,265
Return on plan assets in excess of net interest	(283,881)	–	(283,881)	–	–	–
Remeasurement recognized in equity	(283,881)	(6,894,561)	6,610,680	–	(3,868,054)	3,868,054
Balance at December 31	₱4,868,869	₱53,082,770	(₱48,213,901)	₱–	₱48,569,826	(₱48,569,826)

* Retirement expense is included under 'Compensation and fringe benefits' in the statements of income.

In 2013, the Bank decided to place its retirement fund under the management of the Bank's Trust Group with oversight from the Bank's Retirement Fund Committee, which is annually appointed by the BOD. The Retirement Plan Trustee, as appointed by the Bank in the Trust Agreement executed between the Bank and the duly appointed Retirement Plan Trustee, is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund. The fair value of plan assets by class as at December 31, 2013 follows:

Debt instruments	
Government securities	₱1,945,275
Private bonds	486,319
	2,431,594
Equity instruments	
Financial intermediaries	291,696
Deposits in banks	1,659,260
Investments in Unit Investment Trust Funds	486,319
Fair value of plan assets	₱4,868,869

The Bank's plan assets are carried at fair value. All equity, debt instruments and investments of the pooled funds held have quoted prices in active market. The fair value of other assets and liabilities, which include deposits in banks, BSP's special deposit account, accrued interest and other receivables and trust fee payables, approximate carrying amount due to the short-term nature of these accounts.

The plan assets are diversified investments; those in short-term placements will be further invested depending on the market direction.

The plan's current investment strategy is to achieve a portfolio mix of maximum 50% in Equities for capital appreciation/growth, 20% in corporate notes and bonds, 20% in government securities and 10% in deposits. Given that there are also available pooled funds with aggressive risk assessment, the Plan may likewise be invested to replace the share of equities.

The Bank plans to contribute ₱10M in 2014.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2013, assuming all other assumptions were held constant:

	Increase (decrease)	Amount
Discount rates	+1.00%	₱5,206,513
	-1.00%	(4,448,049)
Future salary increases	+1.00%	4,823,180
	-1.00%	(4,218,398)
Attrition rate	+10.00%	4,653,853
	-10.00%	(4,653,853)

The average duration of the defined benefit obligation at the end of the reporting period is 15.1 years and 15.4 years for 2013 and 2012, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2013	2012
2013	₱–	₱16,565,421
2014	14,582,146	523,743
2015	667,307	704,025
2016	2,560,729	2,667,355
2017	3,367,811	2,503,945
2018	10,863,527	10,664,769
2019 and beyond	46,125,669	40,569,034
	₱78,167,189	₱74,198,292

23. Other Expenses

Other expenses consist of:

	2013	2012
Fees and commission	₱50,815,318	₱37,729,496
Postage	36,531,379	32,668,754
Repairs and maintenance	29,327,971	20,179,452
Promotions and advertising	18,121,349	28,440,483
Litigation	13,636,376	23,558,709
Transportation and travel	10,974,112	11,134,832
Supervision fees	9,250,564	7,282,037
Stationery and supplies used	8,736,909	6,014,933
Management and other professional fees	4,764,963	6,365,761
Appraisal fees	3,214,073	6,499,708
Fines and penalties	2,927,715	653,135
Membership fees and dues	1,081,892	1,074,131
Others	3,046,575	2,505,037
	₱192,429,196	₱184,106,468

24. Income and Other Taxes

Provision for income tax consists of:

	2013	2012
Current:		
Final tax	₱56,665,722	₱69,915,829
MCIT	13,375,608	11,331,532
	70,041,330	81,247,361
Deferred	5,699,210	(2,789,448)
	₱75,740,540	₱78,457,913

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT), documentary stamp taxes and value-added tax.

Provision for income tax include corporate income tax, as discussed below, and 20.00% final tax paid on gross interest income from government securities and other deposit substitutes.

Republic Act (RA) No. 9337, An Act Amending National Internal Revenue Code, provides that the RCIT rate shall be 30.00% and interest expense allowed as deductible expense shall be reduced by 33.00% of interest income subjected to final tax.

An MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the NOLCO is allowed as a deduction from the taxable income in the next three years from the year of inception. Current tax regulations also set a limit on the amount of entertainment, amusement and recreation (EAR) expenses that can be deducted for income tax purposes. EAR expenses are limited to 1.00% of net revenue for sellers of services.

RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, off-shore banking units (OBUs), and local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency-denominated loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Details of the Bank's MCIT and NOLCO follow:

MCIT

Year Incurred	Amount	Expired	Balance	Expiry Year
2010	₱10,100,787	₱10,100,787	₱–	2013
2011	11,299,769	–	11,299,769	2014
2012	11,331,532	–	11,331,532	2015
2013	13,375,608	–	13,375,608	2016
	₱46,107,696	₱10,100,787	₱36,006,909	

NOLCO

Year Incurred	Amount	Used	Balance	Expiry Year
2011	₱21,181,377	₱21,181,377	₱-	2014
2012	216,275,087	48,944,458	167,330,629	2015
	₱237,456,464	₱70,125,835	₱167,330,629	

The Bank's 'Deferred tax liabilities - net' in the statements of financial position consists of:

	2013	2012
Deferred tax assets on:		
Allowance for credit and impairment losses	₱21,454,246	₱21,454,246
	21,454,246	21,454,246
Deferred tax liability on:		
Branch licenses acquired in business combination (Note 13)	(38,400,000)	(38,400,000)
Unrealized gain on foreclosure of acquired assets	(7,677,536)	(1,978,326)
	(46,077,536)	(40,378,326)
	(₱24,623,290)	(₱18,924,080)

As of December 31, 2013 and 2012, the Bank has not recognized deferred tax assets relating to the following deductible temporary differences:

	2013	2012 (As restated)
Allowance for credit and impairment losses	₱249,486,305	₱128,687,339
NOLCO	167,330,629	237,456,464
Retirement liability	48,213,901	48,569,826
Carry forward benefits of MCIT	36,006,909	32,732,088
Accrued rent	32,610,618	32,073,002
Depreciation of investment properties and chattel mortgage properties	24,082,935	20,460,223
	₱557,731,297	₱499,978,942

The reconciliation between the statutory income tax rate and effective income tax rate follows:

	2013	2012 (As restated)
Statutory income tax rate	30.0%	30.0%
Tax effect of:		
Changes in unrecognized deferred tax assets	28.1	52.5
Nondeductible expense	24.3	35.5
FCDU net loss (income)	13.5	(19.2)
Non-taxable income	(3.0)	(12.5)
Tax-paid and tax-exempt interest income	(37.4)	(26.2)
Others	(0.1)	0.7
Effective income tax rate	55.6%	60.8%

25. Capital Stock

	December 31		December 31	
	2013	2012	2013	2012
	Shares		Amount	
Common stock - ₱10 par value				
Authorized	300,000,000	300,000,000	₱3,000,000,000	₱3,000,000,000
Perpetual preferred stock - ₱10 par value				
Authorized	100,000,000	100,000,000	1,000,000,000	1,000,000,000
Issued and outstanding - Common stock				
Balance at beginning of year	162,500,000	150,000,000	1,625,000,000	1,500,000,000
Issuance - Common Stock	-	12,500,000	-	125,000,000
Balance at end of year	162,500,000	162,500,000	₱1,625,000,000	₱1,625,000,000
Issued and outstanding - Perpetual preferred stock	6,250,000	6,250,000	₱62,500,000	₱62,500,000

Common Stock

On September 15, 2009, the Bank's BOD and stockholders approved the application for the increase in authorized capital stock to ₱1.5 billion. The stockholders paid ₱250.0 million as deposits for future stock subscription in 2009.

The SEC approved the increase in authorized capital stock on July 27, 2010. The Bank issued common stock amounting to ₱250.0 million to the stockholders on July 30, 2010.

To meet regulatory capital requirements, the stockholders infused additional capital of ₱250.0 million in 2010. As of December 31, 2010, the subscription agreement was still being finalized, and so the additional capital was recorded under the 'Deposits for future stock subscription' account in the statement of financial position. The Bank issued the corresponding capital shares to these stockholders on March 31, 2011.

On July 19, 2011, the BOD approved the increase in authorized capital stock from ₱1.5 billion to ₱3.0 billion. The application for the increase in authorized capital stock was approved by the SEC on March 31, 2012. The Bank issued additional 12.5 million shares for ₱125.0 million on May 17, 2012.

Perpetual Preferred Stock

On December 13, 2011, the Bank's BOD and stockholders approved the Bank's application for issuance of perpetual and cumulative preferred stock amounting to ₱1.0 billion.

On March 30, 2012, the Bank received cash amounting to ₱62.5 million as subscription for its perpetual and cumulative preferred stock. The Bank's application for the issuance of the preferred stock was approved by the BSP on November 6, 2012.

On December 27, 2012, the SEC approved the increase of the Bank's authorized preferred stock amounting to ₱1.0 billion. On the same date, the Bank issued ₱62.5 million of its authorized perpetual preferred stock at par value.

The perpetual preferred stocks do not have voting rights.

26. 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 can enter into loan and other transactions with its affiliates and with certain directors, officers, stockholders, and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of a bank's net worth, the unsecured portion shall not exceed 5.00% of such net worth. Further, the total outstanding exposures shall not exceed 20.00% of the net worth of the lending bank. The said Circular became effective on February 15, 2007.

On March 15, 2004, the BSP issued Circular No. 423 which provides for the amended definition of DOSRI accounts. The following table shows information relating to DOSRI accounts of the Bank:

	2013	2012
Total outstanding DOSRI loans	₱56,998,549	₱17,861,417
Percent of DOSRI accounts granted under BSP Circular No. 423	0.37%	0.12%
Percent of DOSRI accounts to total loans	0.37%	0.12%
Percent of unsecured DOSRI accounts to total DOSRI loans	—	—
Percent of past due DOSRI accounts to total DOSRI loans	—	—
Percent of nonperforming DOSRI accounts to total DOSRI loans	—	—

Any violation of the provisions under Circular No. 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of Circular No. 423 are not covered by such sanctions for a transition period of two years from the effectivity of the Circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

Total interest income on DOSRI accounts amounted to ₱16.7 million in 2013 and ₱15.2 million in 2012.

The effects of the foregoing transactions are shown under the appropriate accounts in the Bank's financial statements. The significant transactions and account balances with respect to related parties that are included in the financial statements follow:

Transactions with Key Management Personnel:

December 31, 2013			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
Loans and receivables		₱7,277,316	Secured by chattel, deposits and real estate properties. The loans have terms ranging from 1 to 3 years and bear interest rates ranging from 7.00% to 8.70%. No impairment.
Grants	₱4,410,522		
Settlements	61,798,677		
Interest income	388,971	—	Interest income earned on loans and receivables
Deposit liabilities		125,480,655	With interest rates ranging from 0.50% to 5.25%.
Deposits	1,161,078,420		
Withdrawals	1,039,785,166		
Interest expense	2,584,566	240,015	Interest expense on deposit liabilities

December 31, 2012			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/Nature
Loans and receivables		₱64,665,471	Secured by chattel, deposits and real estate properties. The loans have terms ranging from 1 to 3 years and bear interest rates ranging from 7.00% to 8.70%. No impairment.
Grants	₱64,794,400		
Settlements	49,828,929		
Accrued interest receivable	2,757,379	675,913	Interest income and accrued interest receivable.
Deposit liabilities		4,187,401	With interest rates ranging from 0.50% to 5.25%.
Deposits	1,693,784		
Withdrawals	45,390,546		
Accrued interest payable	559,518	999,140	Interest expense and accrued interest payable.

Transactions with Affiliates:

December 31, 2013			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Loans and receivables		₱831,029,069	Secured (chattel and deposits) and unsecured loan with terms ranging from 1 to 5 years and bear interest rates ranging from 5.50% to 8.00%. No impairment.
Grants	₱61,621,200		
Settlements	24,183,476		
Accrued interest receivable	16,421,154	1,870,805	Interest income and accrued interest receivable
Deposit liabilities		456,774,009	Interest rates ranging from 0.50% to 5.25%
Deposits	163,661,961,204		
Withdrawals	164,498,796,566		
Accrued interest payable	4,359,305	114,186	Interest expense and accrued interest payable
Trust fee	117,936	—	Fees charged for trust operations
Rent expense	2,366,212	—	Lease of ATM and branch premises

* Trust fee is included under 'Service charges, fees and commissions' in the statements of income.

December 31, 2012			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Loans and receivables		₱793,591,345	Secured (chattel and deposits) and unsecured loan with terms ranging from 1 to 5 years and bear interest rates ranging from 5.50% to 8.00%. No impairment.
Grants	₱15,662,719		
Settlements	1,945,691		
Accrued interest receivable	12,352,216	482,143	Interest income and accrued interest receivable
Deposit liabilities		1,293,609,371	Interest rates ranging from 0.50% to 5.25%
Deposits	52,066,621,793		
Withdrawals	51,880,462,012		
Accrued interest payable	10,650,066	3,426,842	Interest expense and accrued interest payable
Trust fee	117,936	40,793	Fees charged for trust operations
Rent expense	2,366,212	119,398	Lease of ATM and branch premises

* Trust fee is included under 'Service charges, fees and commissions' in the statements of income.

Transactions with Parent:

December 31, 2013			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Deposit liabilities		₱3,334,938	Interest rates ranging from 0.50% to 5.25%
Deposits	₱724,945,900		
Withdrawals	1,394,631,639		
Interest expense	12,256	–	Interest expense on deposit liabilities

December 31, 2012			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Accounts receivable from stockholders		₱5,606,432	Advances made by the Bank for documentary stamps, taxes and licenses expenditures which are to be reimbursed by the stockholders.
Deposit liabilities		673,030,677	Interest rates ranging from 0.50% to 5.25%
Deposits	₱1,043,512,431		
Withdrawals	746,004,823		
Accrued interest payable	5,814,012	80,238	Interest expense and accrued interest payable

Transactions with Stockholders:

December 31, 2013			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Loans and receivables		₱2,233,704	Secured by chattel with a term of 3 years and bears interest rate of 5.72%. No impairment.
Grants	₱2,000,000		
Settlements	36,368		
Accrued interest receivable	443,130	–	Interest income and accrued interest receivable
Deposit liabilities		118,907,235	Interest rates ranging from 0.50% to 5.25%
Deposits	1,526,354,717		
Withdrawals	1,407,447,482		
Accrued interest payable	2,091,862	160,159	Interest expense on deposit liabilities

December 31, 2012			
Category	Amount/ Volume	Outstanding Balances	Terms and Conditions/ Nature
Loans and receivables		₱270,072	Secured by chattel with a term of 3 years and bears interest rate of 5.72%. No impairment.
Grants	₱–		
Settlements	601,801		
Accrued interest receivable	58,360	1,931	Interest income and accrued interest receivable
Accounts receivable		3,819,588	Advances made by the Bank for documentary stamps, taxes and licenses expenditures which are to be reimbursed by the stockholders.
Deposit liabilities		–	Interest rates ranging from 0.50% to 5.25%
Deposits	103,511,667		
Withdrawals	103,511,667		
Accrued interest payable	125,615	–	Interest expense on deposit liabilities

Transactions with Affiliates are those entered by the Bank with the subsidiaries of the Parent.

As of December 31, 2013 and 2012, no provision for credit losses was recognized relating to receivables from related parties.

Compensation of key management personnel included under 'Compensation and fringe benefits' in the statements of income follows:

	2013	2012
Short-term employee benefits	₱119,520,062	₱105,502,661
Post-employment pension benefits	8,366,404	7,694,984
	₱127,886,466	₱113,197,645

Transactions with Retirement Plan

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank's retirement plan is in the form of a trust administered by the Trust Group under the supervision of the Retirement Fund Committee. The values of the assets of the fund are as follows:

	2013
Debt instruments	₱2,431,594
Cash equivalents	1,659,260
Investments in UITF	486,319
Equity instruments	291,696
	₱4,868,869

27. Trust Operations

On May 21, 2008, the Bank was granted a license by the BSP to conduct its trust operations. The Bank started its trust operations on June 2, 2008.

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of financial position since these are not assets of the Bank. Total assets held by the Bank's Trust Group amounted to ₱1,966.2 million and ₱1,750.2 million as of December 31, 2013 and 2012, respectively.

In compliance with current banking regulations relative to the Bank's trust function, government securities included under AFS investments with a total face value of ₱22.0 million and ₱20.0 million, as of December 31, 2013 and 2012 respectively, are deposited with the BSP. In addition, 10.00% of the Bank's net profit realized from its trust operations is appropriated to surplus reserve until such reserve for trust functions amounts to 20.00% of the Bank's regulatory capital.

28. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. The Bank does not anticipate significant losses as a result of these transactions.

As of December 31, 2013 and 2012, the Bank has several suits and claims that remain pending before various courts. Management believes, based on the opinion of its legal counsels, that the ultimate outcome of such cases and claims will not have a material effect on the Bank's financial position and financial performance.

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2013	2012
Investment management account (Note 27)	₱1,385,460,506	₱1,031,249,993
Spot exchange	623,305,800	1,026,250,000
Trust group accounts (Note 27)	580,752,767	718,975,192
Outstanding guarantees issued - others	28,240,348	38,542,287
Domestic letters of credit	28,384,580	6,000,000
Sight/usance LC –Domestic	19,376,899	2,456,767
Sight/usance LC –Foreign	6,286,406	11,032,803
Inward bills for collection	2,545,621	–
Late payment deposit/payment received	2,408,072	595,394
Items held for safekeeping	104,437	125,804
Items held as collateral	3,746	3,213
Outward bills for collection	–	1

29. Financial Performance

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

	2013	2012
Return on average equity	3.38%	2.92%
Return on average assets	0.23%	0.19%
Net interest margin on average earning assets	3.33%	3.54%

30. Approval of Release of the Financial Statements

The accompanying financial statements were authorized for issue by the BOD on March 25, 2014.

31. Supplementary Information Required Under Revenue Regulations 15-2010

On November 25, 2010, the BIR issued RR 15-2010 to amend certain provisions of RR 21-2002. The Regulations provide that starting 2010, the notes to financial statements shall include information on taxes and licenses paid or accrued during the taxable year.

The Bank reported and/or paid the following types of taxes in 2013:

Gross Receipt Tax (GRT)

The Bank is subject to GRT on its gross income from Philippine sources. GRT is imposed on interest, fees and commissions from lending activities at 5.00% or 1.00%, depending on the loan term, and at 7.00% on non-lending fees and commissions, trading and foreign exchange gains and other items constituting gross income.

In FCDO, income classified under Others is subject to corporate income tax.

The details of the Bank's GRT expense and corresponding GRT tax base in 2013 are as follows:

	GRT	GRT tax base
Interest income	₱68,256,099	₱1,489,284,493
Other income	53,243,705	780,484,703
	₱121,499,804	₱2,269,769,196

Taxes and Licenses

This includes all other taxes, local and national, incurred in 2013 and lodged under the 'Taxes and licenses' account in the statement of income, as follows:

	Amount
GRT	₱121,499,804
Documentary stamp taxes	74,899,420
Mayor's permit and real estate taxes	5,536,182
Fringe benefit taxes	3,420,644
Land transportation office registration	150,155
Other taxes	35,496
	₱205,541,701

Documentary stamp taxes paid relating to time deposits amounted to ₱60.5 million in 2013.

Withholding Taxes

Details of total remittances in 2013 and balances as of December 31, 2013 follow:

	Total Remittance	Balance
Final withholding taxes	₱101,214,001	₱6,515,425
Withholding taxes on compensation and benefits	74,412,903	6,524,111
Expanded withholding taxes	17,819,196	962,023
	₱193,446,100	₱14,001,559

Tax Assessments and Cases

As of December 31, 2013, the Bank has no deficiency tax assessments and has no tax cases, litigation and/or prosecution in courts or bodies outside the BIR.

Gallery

BOARD OF DIRECTORS



1. Ruben C. Tiu - Chairman
2. Gregorio T. Yu - Vice-Chairman
3. Atty. Lamberto R. Villena - President & CEO
4. Bansan C. Choa
5. William L. Chua
6. Harris Edsel D. Jacildo
7. Nilo L. Pacheco, Jr.
8. Atty. A. Bayani K. Tan
9. Bernadette Cindy C. Tiu
10. John Y. Tiu, Jr.
11. Ignatius F. Yenko



SENIOR OFFICERS



Atty. Lamberto R. Villena - President & CEO

Executive Vice Presidents



1. Ralph B. Cadiz - Head, Retail Banking Group, Business Support Services and Management Support Services
2. Benson J. Hari-Ong - Head, Commercial Lending, Marketing and HR
3. Cecilio Paul D. San Pedro - Head, Treasury Group

Senior Vice Presidents



1. Dalisay N. Rubio - Head, Controllership Group
2. Clayton T. Lee - Chief Trader
3. Alex Luis M. Pesigan - Head, Retail Banking Group Operations
4. Alfredo S. Vitangcol, Jr. - Head, Information Technology Group

First Vice Presidents



1. Cherie C. Ballesteros - Head, Area I
2. Betty L. Biunas - Deputy Head, Commercial Lending Group & Concurrent Head, Commercial Lending II
3. Leila L. Dejan - Head, Area III
4. Ma. Dulce Y. Edillor - Head, Human Resources Group
5. Luisito S. Mayor - Head, Business Support Services Group
6. Wilfredo Perry B. Morales - Chief Compliance Officer
7. Isabel Y. San Pablo - Head, Consumer Lending Group



SENIOR OFFICERS

Vice Presidents



1. Dax C. Albarece - Head, VisMin Consumer Lending
2. Marc Christopher U. Carlos - Liquidity/FX Trader
3. Wilfredo S. Cataquis - Branch Expansion Officer
4. Grego S. Cervantes, Jr. - Head, Area II
5. Rinaldi O. Gonzales - Head, Technology Operations
6. Dan C. Guevara - Head, Center for Learning
7. Henry G. Hung - Head, Application Systems
8. Marilou B. Labay - Head, Financial Market Sales
9. Ma. Margarita A. Legarda - Head, Personal/Salary Loans
10. Michelle Ohrella G. Oira - Chief Risk Officer
11. Ethel L. Peralta - Head, Management Support Services
12. Caroline T. Ri-Hong - Senior Relationship Manager



13. Honesto M. Roque, Jr. - Head, Auto Loans
14. Lilia P. Santos - Head, Commercial Lending I
15. Ronaldo C. Santos - Head, Treasury Marketing
16. Arlene N. Siongco - Head, Recruitment and Career Management & Concurrent Head, Compensation and Benefits
17. Joseph T. Sulit - Head, Retail Banking Group Support
18. Nestor J. Sunico - Head, Consumer Support
19. Enrique D. Tan - Senior Relationship Manager
20. Geronima Ana G. Tan - Branch Head
21. Josephine H. Tiongco - Head, Area V
22. Joselito V. Ty - Head, Audit Group
23. Ma. Michelle SR. Valeriano - Trust Officer
24. Marilou B. Villanueva - FX Trader

PRODUCTS & SERVICES

PERSONAL BANKING

CONSUMER LOANS

Ultima Auto Loans - Driving home your own car should always be a rewarding experience. Start with low attractive rates, long repayment terms, and zippy loan processing. It's no wonder we're driven to give you the ultimate deal possible!

Persona Personal Loans - Because you'll never know when you'll need a little extra - for tuition fees of your children, for your dream vacation, for home improvements, to jumpstart your own business venture, or simply to help you out in a financial emergency. Let Persona address your personal financial needs.

Discovery Home Loans - The key to having your own dream home is to call us! It's that easy. Make your choice, let us handle the rest.

Avance Salary Loans - Probably the best perk for work... Unsecured loans made available to qualified employees of accredited companies.

THE SOLO SAVINGS SERIES

Solo Savings Account - Our Peso Savings Account. Easy to access, even easier to maintain. Uncomplicated banking at its best.

Solo Dollar Savings Account - Just like our Peso Savings Account, you can open a dollar savings account with much ease. Here's the deal - we'll count your pennies, you'll count the blessings!

Solo Yuan Savings Account - With an opening balance requirement of CNY 2,500.00 and a minimum ADB requirement of CNY 2,500.00, clients can already get a competitive interest rate of 0.15% per annum credited monthly to their account.

Neo Kiddie Savings Account - Fun, colorful future awaits! Paint their future bright with Neo Savings Account. Neo is a special savings deposit account for kids ages 17 and below. Through Neo, kids can already save and earn at the same time at an early age, to grow their money for their own future.

Bayani OFW Savings Account - By offering this type of account, the Bank aims to help develop the habit of saving and improve financial literacy and financial management skills of OFWs and their families.

THE STERLING BANK CARDS

Enjoy the convenience and privileges of shopping and dining without having to worry about your monthly bills. Both powered by Visa and BancNet, our Debit and Prepaid Cards provide an alternative payment method to consumers worldwide. It is the ultimate medium for cashless convenience allowing its cardholders to access their funds in several easy and practical methods (Online, POS and ATMs). Plus, our Debit and Prepaid Cards are the country's first Visa Cards to have embedded EMV Chips so you can be sure of a more secure payment whenever, wherever.



CORPORATE BANKING

BUSINESS LOANS - As your Business partner, Sterling Bank offers its wide range of Business Loans Products to answer demands and requirements of businesses in their phases of growth or expansion. Our Business Loans is sure to give you that extra working capital in establishing or improving the business you've always cared about. And, we can even refinance your receivables.

- Short Term Loans
- Trade Check Discounting
- Import / Domestic Letter of Credit (LC)
- Trust Receipt (TR)
- Domestic LC/ TR
- Standby LC or Bank Guarantee
- Term Loan
- Developmental Loan
- Domestic Bills Purchase

OPTIMA BUSINESS SOLUTIONS - Sterling Bank's value added solution to your business challenges.

Optima Business Banking Solution is a unique business checking account that comes with bundled cash management facilities to help minimize if not eliminate overhead expenses, streamline operation and most importantly, improve the bottomline.

The Optima Cash Management Facility

With Optima, you get to optimize management of cash/liquid funds. One single account can now easily maintain and take care the disbursements, collections, investment of your whole company's financial resources.

The Optima Cash Management is bundled with:

- Payroll System
- Financial System
- Check Writer System
- Optima Online

WEALTH MANAGEMENT

TREASURY SERVICES - Sterling Bank offers a range of Treasury products and services from sale of fixed income securities (government securities and corporate bonds) to the more sophisticated and financially engineered products to meet the dynamic requirements of its clients. Managed by a team of dedicated officers, you can be assured that your investment will be handled in a prudent manner.

- Government Securities
- Fixed Rate Treasury Notes(FXTNs)
- Peso Corporate Bonds
- USD Corporate Bonds
- Treasury Bills
- Retail Treasury Bonds(RTB)
- USD Sovereign Bonds

TRUST SERVICES - From simple deposit accounts to complex and varied cash management services, Sterling Bank of Asia is here to offer you even customized wealth management services suited to you and your business' investment needs, goals and lifestyle.

Personal Wealth Management - As your personal financial advisor, the Bank will gladly help you achieve your financial objectives by helping you choose the right investment portfolio for you.

Corporate Trust - As your corporate financial advisor, the Bank will gladly help you achieve your company's financial objectives by helping you choose the right investment portfolio for you.

Investment Management - We can help you choose the right investment portfolio to address your company's varied financial objectives.

Unit Investment Trust Fund (UITF) - Sterling Bank gives you access to high-grade fixed income investment instruments through the Sterling Money Market Fund and the Sterling \$ Money Market Fund.

- Sterling Money Market Fund (Peso)
- Sterling \$ Money Market Fund (Dollar)
- Sterling Bond Fund*
- Sterling Equity Fund*
- Sterling Balanced Fund

*To be launched.

Auxiliary Trust - We can help you manage and safe-keep your financial resources like money, securities or even properties, with the expected delivery only upon the fulfillment of certain event or condition you prescribe.

OTHER BANK SERVICES:

- ATMs
- Internet Banking
- Mobile Banking
- Deposit Pick-up



Branch Network

METRO MANILA

Alabang

G/F Autocentrum BMW Center,
Commerce Ave., Madrigal Business Park,
Alabang, Muntinlupa City
T: 556-3180; 556-3493

F: 556-3492

Amorsolo

G/F Amorsolo Mansion,
Amorsolo cor. Herrera Sts.,
Legaspi Village, Makati City
T: 553-0034; 553-0033

F: 519-5772

Ayala Ave.

G/F SSS-Makati Bldg.,
Ayala Ave. cor. V.A. Rufino St.,
Makati City
T: 892-1263; 864-0431

F: 864-0427

Banawe

#705 Banawe St.,
Quezon City
T: 781-7650

F: 740-8174

BF Homes

President's Ave. cor. Monserrat St.,
BF Homes Subd.,
Parañaque City
T: 850-9184; 807-8074

F: 850-8959

Caloocan

Rizal Ave. Ext.
Between 7th and 8th Ave.,
Grace Park, Caloocan City
T: 330-7398; 330-7399

F: 330-7397

Congressional

Unit 31, G/F Barrington Place Bldg.,
Congressional Ave., Quezon City
T: 928-5168; 929-8748

F: 929-9506

Divisoria

New Divisoria Center Condominium,
630 Sta. Elena St., San Nicolas,
Divisoria, Manila
T: 241-0179; 241-0180

F: 241-0181

Fort Bonifacio

Unit-J, G/F Kensington Plaza,
1st Ave. cor. 29th St., Crescent Parkwest,
Bonifacio Global City, Taguig City
T: 856-5042; 856-5072

F: 856-5036

Gil Puyat

G/F Morning Star Bldg.,
Sen. Gil Puyat Ave.,
Makati City
T: 897-4382; 899-2838

F: 895-5573

Greenhills

G/F Sterling Bank Corporate Center,
Ortigas Ave., Greenhills,
San Juan City
T: 727-8752; 726-6418

F: 727-8752

Las Piñas

Alabang-Zapote Road,
Pamplona II, Las Piñas City
T: 846-4473; 846-4474

F: 846-4317

Leviste

G/F Liroville Condominium,
Leviste cor. Sedeño Sts.,
Salcedo Village, Makati City
T: 846-4168

F: 555-0944

Malabon

Francis Market,
Gov. Pascual Ave. cor. M.H. del Pilar St.,
Tinajeros, Malabon City
T: 351-1007; 351-1006

F: 351-1002

Marikina

G/F WRC Bldg.,
47 Gil Fernando Ave., Midtown Subd. II,
San Roque, Marikina City
T: 681-2628; 681-2908

F: 681-4327

Masangkay

Unit 963-965, G/F Masagana Bldg.,
G. Masangkay St.,
Binondo, Manila
T: 243-1342; 243-1832

F: 243-1446

Ninoy Aquino Ave. (NAIA)

G/F Columbia Complex,
Ninoy Aquino Ave.,
Parañaque City
T: 853-9485

F: 853-9484

Ongpin

Unit-C, G/F 888 Neo Plaza,
Sabino Padilla cor. Ongpin Sts.,
Binondo, Manila
T: 736-3113; 736-3208

F: 735-8321

Ortigas

G/F Prestige Tower,
F. Ortigas Jr. Road (formerly Emerald Avenue)
Ortigas Center, Pasig City
T: 706-3072; 706-3254

F: 706-3074

Quezon Ave.

G/F Ave Maria Bldg.,
1517 Quezon Ave. (near cor. Examiner St.),
West Triangle, Quezon City
T: 376-6792; 376-6793

F: 376-6794

Quintin Paredes

550 Quintin Paredes St.,
Binondo, Manila
T: 247-3841; 247-3954

F: 247-3992

San Fernando (Binondo)

G/F VISCO Bldg.,
San Fernando St., cor. Sto. Cristo St.
Binondo, Manila
T: 242-7849; 242-8697

F: 243-4144

Shaw Blvd.

G/F Shaw Residenza,
429 Shaw Boulevard,
Mandaluyong City
T: 470-9367; 470-9405

F: 470-9420

Timog

G/F Riviera Filipina Bldg.,
25 Timog Ave.,
Quezon City
T: 374-0168; 441-8155

F: 441-8156

U.N. Ave.

G/F Royal Bay Terrace Condominium,
465 U.N. Ave. cor. Cortada St.,
(near A. Mabini) Ermita, Manila
T: 523-6881; 523-7852

F: 523-7656

Valenzuela

JLB Enterprises Inc. Bldg.,
54 Km.12, McArthur Highway,
Marulas, Valenzuela City
T: 294-8301; 294-8379

F: 294-8466

PROVINCIAL

Bacolod

31 Lacson St.,
Bacolod City
T: (034) 432-1381; 432-1490

F: (034) 432-1641

Baguio

1 Leonard Wood Road,
Post Office Loop, Baguio City
T: (074) 445-2789

F: (074) 445-2786

Biñan

National Highway,
Brgy. Canlalay, City of Biñan
T: (049) 307-7595 to 97

F: (049) 307-7594

Cagayan de Oro (CDO)

G/F The VIP Hotel,
A. Velez cor. JR Borja Sts.,
Cagayan de Oro City
T: (088) 852-8168; 852-8171

F: (088) 852-8172

Cebu - Fuente Osmeña

Gen. Maxilom Ave. cor. F. Ramos St.,
Cebu City
T: (032) 255-3198; 255-6157

F: (032) 254-0087

Cebu - Magallanes

Magallanes cor. Manalili Sts.,
Cebu City
T: (032) 256-2659; 255-7935

F: (032) 255-1203

Dagupan

G/F, Lenox Hotel, Rizal Street,
Dagupan City, Pangasinan
T: (075) 523-1168

F: (075) 522-3168

Davao - J.P. Laurel

J. P. Laurel Avenue,
Bajada, Davao City
T: (082) 221-7168; 222-0357 to 58

F: (082) 222-0196

Davao - Monteverde

Unit 72-74, G/F Sequoia Inn Bldg.,
T. Monteverde St.,
Davao City
T: (082) 222-4140; 224-0542

F: (082) 224-1924

General Santos City

Jose Catolico Sr. Ave.,
General Santos City
T: (083) 553-5168; 553-5172

F: (083) 553-5171

Iloilo

G/F R. Montinola Bldg.,
Ledesma St.,
Iloilo City
T: (033) 338-3797; 338-3795

F: (033) 338-3796

Imus

A & M Ramos Building,
Emilio Aguinaldo Highway, Bayan Luma IV,
Imus, Cavite
T: (046) 472-3168; 471-0644 to 45

F: (046) 474-0081

OTHER DEPARTMENTS

Consumer Loans

2/F Prestige Tower, F. Ortigas Jr. Road,
Ortigas Center, Pasig City

Personal Loans

T: 470-8168 locs. 2522, 2505, 2509
2523, 2510, 2591, 2576
F: 470-9130; 914-7038

Salary Loans

T: 470-8168 locs. 2551-2557
F: 914-7038

Real Estate Loans

T: 982-9388 locs. 2685,
2780, 2754, 2756, 2687
F: 982-9399

Auto Loans

T: 982-9388 locs. 2671, 2674, 2676
F: 982-9399

Consumer Loans - VisMin Area

2/F Coast Pacific Bldg. Gen. Maxilom Avenue
cor. F. Ramos Street, Cebu City
T: (032) 254-7295
F: (032) 254-8291

Commercial Lending 1

1/F Sterling Bank Corporate Center
Ortigas Ave., Greenhills, San Juan City
T: 535-6168 locs. 1010-1013, 1015-1016
535-6153; 535-6189

Commercial Lending 2

3/F #550 Quintin Paredes St.,
Binondo, Manila
T: 247-0293; 243-0804

Trust & Treasury

3/F Sterling Bank Corporate Center,
Ortigas Ave., Greenhills, San Juan City

TRUST: 535-6168 locs. 6148,
1325, 1321

TREASURY: 535-6168 locs. 6115,
1313

Business Development Unit

G/F Sterling Bank Corporate Center,
Ortigas Ave., Greenhills, San Juan City
T: 535-6168 locs. 1151, 1154, 1158, 1161



HEAD OFFICE:
STERLING BANK CORPORATE CENTER, ORTIGAS AVENUE,
GREENHILLS, SAN JUAN CITY 1500 PHILIPPINES

TALK TO US:
CUSTOMER SERVICE HELPLINE: (02) 721-6000
E-MAIL: customer.service@sterlingbankasia.com

www.sterlingbankasia.com