Annual Report 2013

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CTBC BANK
中國信託銀行

2013 Annual Report

Summary of Main Contents:

Annual Report Year 2013

Submitted to

Securities and Exchange Commission
(SEC)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended ----------------- December 31, 2013

2. SEC Identification Number ----------------- AS-095-008814A

3. BIR Tax Identification No. ----------------- 004-665-166-000

4. Exact name of issuer as specified in its charter ---------

   CTBC BANK (PHILIPPINES) CORP.

5. Philippines
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code:

7. Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City
   Address of Principal Office

   1634
   Postal Code

   (632) 9889 287
8. Issuer's telephone number, including area code

   CHINATRUST (PHILIPPINES) COMMERCIAL BANK CORPORATION
9. Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock, P10 par value	247,968,731
Treasury Shares	484,920

11. Are any or all of these securities listed on a Stock Exchange?

    Yes [ ]   No [x]

    If yes, state the name of such stock exchange and the classes of securities listed therein:

**The Philippine Stock Exchange in its Memorandum No. 2012-0010 dated February 20, 2012 approved the Bank's Petition for Voluntary Delisting effective February 24, 2012.*

Check whether the Issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [x]   No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [x]   No [ ]

13. The aggregate market value of the voting stock held by non-affiliates of the registrant.

Number of shares held by non-affiliates multiplied by share price as of February 20, 2012: Php29,457,160.00.

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission. ***Not Applicable.***

Yes [ ]   No [ ]

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders ------------- Not applicable

(b) Any proxy or information statement filed pursuant to SRC Rule 20 and 17.1(b)------Not applicable

(c) Any prospectus filed pursuant to SRC Rule 8.1-1--------- Not applicable

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

(1) Description of Business

Business Development. CTBC Bank (Philippines) Corp. ("Bank") is the Philippine subsidiary of CTBC Bank Co., Ltd. ("CTBC Ltd.") of Taiwan. CTBC Ltd. is the biggest privately-owned commercial bank, the most awarded financial institution in the island nation, and one of the world's top two hundred (200) banks in terms of capital.

The Bank was incorporated on September 7, 1995 initially as Access Banking Corporation, and commenced operation on September 26, 1995 as a domestic commercial bank. The Bank has an authorized capital stock of P3.0 Billion.

On November 22, 1995, the Monetary Board approved the investment of CTBC Ltd. in sixty percent ("60%") of the voting stock of Access Banking Corporation through the outright purchase of fifty percent ("50%") or P487.5 Million of its P975.0 million outstanding voting stock and an additional subscription of P262.5 million of the P275.0 million additional voting stock issued. On January 8, 1996, the Bank's name was changed to Chinatrust (Philippines) Commercial Bank Corporation.

In line with the capital build-up program of the Bank, its Board of Directors approved in 1997 the issuance of 25 million common shares at P10.00 per share from its authorized capital stock via a stock rights offering to existing stockholders. This entitled the existing shareholders to subscribe to one (1) common share for every five (5) shares held. As of December 31, 1997, the stock rights offering was fully subscribed; partial payment to the subscription amounted to P209.99 million which resulted in the Bank's attainment of its P1.647 Billion capital, fully complying with minimum capital requirements of BSP of P1.625 billion by the end of the year. On March 31, 1998, all subscriptions to the stock rights were fully paid. On April 23, 1998, the SEC approved the stock rights offering.

On June 2, 1999, the Bank's share was listed in the Philippine Stock Exchange ("PSE") through an Initial Public Offering ("IPO") of 37,500,000 common shares from its unissued authorized capital stock. The proceeds of the IPO were utilized for branch expansion and investment in information technology.

In December 2000, CTBC Ltd. substantially increased its equity in the Bank through the acquisition of shares held by a minority group, thus controlling approximately 91% of the Bank's capital stock, compared to 57% prior to the acquisition. A further acquisition of shares held by the public representing 9% of the Bank's equity was made by CTBC Ltd. in January 2001 through a tender offer at a price of PhP19.00 per share, the same price at which the shares from the minority group was acquired. To date, CTBC Ltd. holds 99.41% of the Bank's outstanding capital stock.

On August 25, 2005, the Board of Directors of the Bank declared 15% stock dividends out of its unissued shares. It was subsequently approved by the shareholders in a special meeting called for the same purpose on December 22, 2005. The BSP later approved the 15% stock dividend on February 20, 2006. On April 4, 2006, 28,124,997 common shares representing the 15% stock dividends were issued to the Bank's shareholders and simultaneously listed with the PSE.

On March 30, 2007, the Bank's Board of Directors once again made another 15% stock dividend declaration, to be paid out of the Bank's unissued shares. The same was ratified by the shareholders during the Bank's annual shareholders' meeting held on June 28, 2007, and subsequently approved by the BSP on September 20, 2007. On November 15, 2007, an additional 32,343,734 common shares representing 15% stock dividends were listed in the PSE and issued to the Bank's stockholders of record as of record date.

On December 23, 2011, the Bank a filed Petition for Voluntary Delisting at the Philippine Stock Exchange ("PSE"). Pursuant to the PSE Voluntary Delisting Rules, a tender offer was conducted by the Bank at a tender offer price of Php26.14. The PSE in its Memorandum No. 2012-0010 dated February 20, 2012 approved the Petition for Voluntary Delisting effective February 24, 2012.

On June 27, 2013, the Bank's stockholders elected the following directors: Jack Lee, William B. Go, Philip Ong*, Peter Liu and Mark Chen; Messrs. Edwin Villanueva and Ng Meng Tam were elected as independent directors. Messrs. Jack Lee and William B. Go were elected Chairman and Vice-Chairman, respectively.

On September 19, 2013, the SEC approved the amendment to Article FIRST of the Bank's Articles of Incorporation amending the Bank's name to CTBC Bank (Philippines) Corp. The Bank started using the new corporate name effective October 30, 2013.

** On October 30, 2013, Messr. Philip Ong resigned as Director. On December 13, 2013 the Board appointed Messr. Frank Shih as Director to serve the unexpired term of Messr. Philip Ong.*

Based on the data as of December 31, 2013 posted by Business World, out of the thirty-five (35) universal and commercial banks operating in the Philippines, the Bank ranked 30th in terms of Total Assets; 24th in terms of Total Loans; 29th in terms of Total Deposits; and 19th in terms of Total Capital.

(2) Business of Issuer

Products and Services. As a full-service commercial bank, the Bank offers various products and services, such as the following:

PESO DEPOSITS
Peso Savings Account
Peso Checking Account
Ultimate Earner Checking Account
Peso Time Deposit

FOREIGN CURRENCY DEPOSITS
Dollar Savings Account
Dollar Time Deposit
Dollar Innovate Five-Year Time Deposit

CONSUMER LOANS
Housing Loan (Cashback and Fixed Rate variants)
Salary Stretch Loan (Personal and Corporate)
Back-to-Back Loan (Personal and Corporate)

TREASURY SERVICES
Foreign Exchange
    Spot, Forward & Options
Peso Fixed Income
    Treasury Bills
    Fixed Rate Treasury Notes
    Retail Treasury Bonds
    Global Peso Notes
    Peso Corporate Bonds
Dollar Fixed Income
    ROP Dollar Bonds
    Onshore Dollar Bonds
    Other Sovereign Bonds
    Dollar Corporate Bonds

CORPORATE LENDING
General Working Capital Loans
Capital Expenditure Financing
Structured Finance
Syndicated Financing
Trade Financing
Various Discounting Facilities

CASH MANAGEMENT SERVICES
Account Information Management
- NetBanking
- E-Mail Statement

Disbursement Management
- CTBC Bank Visa Debit & Cash Card
- Co-Branded Cash Cards
- Payroll Facility
- Ultimate CheckWriter
- Customs Duties
- BancNet eGov

Receivables Management
- Post-Dated Check Warehousing
- Ultimate Money Mover (Deposit Pick-up)
- Night Depository
- BancNet Bills Payment
- Point-of-Sale

TRANSACTION BANKING
Invoice Payables Financing
Medical Receivables Funding Program

TRUST PRODUCTS
Living Trusts
Corporate/Institutional Trusts
Investment Management (Personal and Corporate/Institutional)
Retirement Fund Management
Other Fiduciary Services:
- Escrow Agency (Personal and Corporate)
- Safekeeping (Personal and Corporate)
- Mortgage Trust Indenture

PAYMENT AND REMITTANCE SERVICES
Remittances/Telegraphic Transfers

TRADE SERVICES
Letters of Credit
- Import Letters of Credit
- Export Letters of Credit
- Import and Export Bills Processing
- Domestic Letters of Credit
- Standby Letters of Credit

Shipping Guarantee
Loans Against Trust Receipts
Import Documentary Collections (D/P, D/A)
Open Account/Direct Remittances

From the foregoing products and services, the Bank's revenues are categorized into three (3) major segments, namely: (1) Portfolio Products; (2) Transactional Banking Products; and (3) Exposure Management Products. The remaining revenues are classified under Others. Portfolio Product revenues consist of spreads earned on loans. Transactional Banking Product revenues consist of spreads earned on deposits as well as fees earned from cash management products and trade services. Exposure Management Product revenues consist of income earned from the investment portfolio and trading activities. Other revenues consist of fees earned on trust services, gain on sales of acquired assets, service fees and charges earned on all other banking activities. The contributions of the 3 major segments in terms of percentage to the Bank's total revenues during the last two years are as follows:

Major Segment	***2012***	***2013***
Portfolio Products	53.91%	55.82%
Transactional Banking Products	13.69%	14.70%
Exposure Management Products	26.98%	23.41%

Status of New Products or Services. No new products introduced in 2013.

Distribution Network. The Bank's products and services are made available to its clients through its offices, branch network, all automatic teller machines (ATMs), and for some services/products, thru its own ATM's or through other ATM networks. Likewise, some products can now be accessed through electronic channels i.e.

interactive voice response system, internet and short message system (SMS). In addition to its Main Office Branch in Bonifacio Global City, the Bank operates 22 branches as of end of December 2013.

Competition. The Bank faces competition from both domestic and foreign banks that operate in the Philippines. In the light of such competitive environment, the Bank focuses on key businesses to include consumer finance, the trading of fixed-income instruments and foreign exchange, the Taiwanese business, and selective corporate lending. By being a specialist, it is able to properly concentrate its resources and capital to ensure service excellence and good risk management and corporate governance. The Bank likewise adopts applicable business models from its parent bank and custom fits these to local market conditions. These efforts make the Bank a strong player in its chosen businesses.

Sources and availability of raw materials and the names of principal supplies. - **Not applicable.**

Dependence upon a single/few customers. **– Not applicable.**

Transactions with and/or dependence on related parties**.** Except in the ordinary course of business such as DOSRI and employee loans, there are no transactions with and/or dependence on related parties.

Trademarks, Licenses, Franchises., etc. The trademarks "CTBC" and "We Are Family" are pending registration at the Intellectual property Office.

Effect of existing or probable government regulations*.* As a domestic commercial bank, the Bank is governed by the rules and regulations of the BSP. The Bank observes and complies with all government laws, rules and regulations that exist.

Amount spent on research and development**.** There are no major expenses on research and development activities and these are just incorporated into the ordinary business expense of the Bank.

Cost and effect of compliance with environmental laws. - **Not applicable.**

Number of Employees. As of December 31, 2013, the Bank had five hundred forty five (548) employees composed of 342 officers and 206 staff, with 521 regular employees and 18 probationary employees. The Bank has no existing employees' union. It has also no collective bargaining agreement.

In addition to salary, the Bank gives its employees fringe benefits, consisting of 13th month pay, mid-year bonus, Christmas bonus, performance bonus, medical allowance, health benefits, group life insurance, car plan, company car benefit, parking allowance, gasoline reimbursement, meal allowance, out-of-base allowance, salary loans, retirement pay loan, retirement benefits, and various leaves (sick, vacation, emergency, maternity, paternity, solo parent, etc.).

Major Business Risks. The Bank's business activities are exposed to a variety of financial risks – market risks, credit risk, liquidity risk and interest rate risk. The Bank is strongly committed to judiciously managing risks. For this purpose, it has put in place the necessary processes and platforms that enable it to prudently manage all categories of risk. It is the presence of this risk infrastructure and consciousness that has made the Bank either a leader or a major player in businesses where the required core competency is astute risk management capability. The Bank's risk management programs seek to minimize potential adverse effects on its financial performance.

Market risk is the risk that the value of a currency position or financial instrument will fluctuate due to changes in foreign exchange rates and interest rates. The Bank's market risk originates from its holdings in its foreign exchange instruments, debt securities and derivatives. The Bank utilizes market risk factor sensitivities as a tool to manage market risk. Market risk factor sensitivities of a position are defined as a change in the value of a position caused by a unit shift in a given market factor. The Market Risk Management Unit implements a trading risk limits that is in line with the Bank's risk appetite. The Bank also maintains a rigid system of loss limits and action triggers that prompt management to immediately act in the event that these thresholds are breached. These actions may include, but are not limited to, the partial liquidation of existing positions in order to cut losses. The objective of these thresholds is to ensure that losses, if any, will be limited to what the Bank's earning capability can sufficiently cover.

Credit risk is the risk that a borrower or issuer of a security held by the Bank will not pay the obligation when it falls due. The Bank manages its credit risk by setting limits for individual borrowers and group of borrowers. It also puts a cap on exposures to specific products, specific market segments, specific industries and specific loan tenors. The Bank likewise monitors borrower-specific credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Bank obtains security where appropriate, enters into collateral arrangements with counterparties and limits the duration of the exposures.

Liquidity risk is the risk that the Bank will be unable to meet its obligations as they fall due at a reasonable cost within a reasonable timeframe. To effectively manage liquidity risk, the Bank diversifies its funding sources and maintains a set of prudent liquidity risk limits, liquidity indicators, maturity gap analysis, and maximum cumulated outflows per tenor bucket. In addition, the Bank maintains sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions.

Interest rate risk is the risk to future earnings or equity arising from the movement of interest rates. The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. The Bank measures the impact of 1 basis point change in interest rate on net interest income (NII) and that on economic value of equity (EVE). The analysis of such impact on NII (1bp□NII) focuses on changes in interest income and expense within a year, hence, a short-term perspective. The analysis of such impact on EVE (1bp□EVE) is of a long-term perspective as it focuses on changes of economic value which will become net interest income received every year later on. Accordingly, both delta Net Interest Income and delta Economic Value of Equity limits in relation to the interest rate sensitivity of the banking book have been established by Management.

In addition to financial risks, the Bank is also exposed to operations risks. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Bank ensures that specific business policies, processes, procedures and staff are in place to manage overall operational risks by way of identifying, assessing, controlling, mitigating, monitoring and reporting risk events. The Bank manages other types of risks such as regulatory and reputational risk.

Item 2. Properties

Properties Owned

The Bank owns the following condominium units described hereunder:

- Commercial unit, the entire 12th Floor, BA Lepanto Building, Paseo de Roxas, Makati City
- Unit 16-P 16th Floor, Eastwood Parkview Tower 1, Eastwood City, Libis, Q.C.; within redemption period
- Unit E23B Gueventville II Condominium, Calbayog cor. Libertad Sts., Brgy. Highway Hills, Mandaluyong City; within redemption period
- Unit 17A Tower A Kingswood Towers Condominium, Chino Roces Ave. corner Vito Cruz Ext., Makati City; within redemption period
- Unit 17F – 20 Lansbergh Place Condominium, No. 170 Tomas Morate Ave., cor. Scout Castor St., Brgy. Sacred Heart, Q.C; within redemption period; with court case

There are no mortgage, liens, encumbrances or any limitations on the Bank's ownership of the foregoing units, except as described, while the following units are subjects of separate Contracts to Sell, the consideration of which has not yet been fully paid: (1) Unit T-1A-16 Makati Prime City, San Antonio Village, Makati City; (2) Residential unit, 4th Floor, Unit 403 Ylaya Mansion, 1057 Ylaya Street, Tondo, Manila; (3) Unit 1601 Summit One Tower, Shaw Blvd., Mandaluyong City; (4) Unit 9G Dorchester Tower, Forbeswood Heights, Bonifacio Heights, Global, Taguig City; and (5) Unit 9F Forbeswood Heights Tower 5, Fort Bonifacio, Bonifacio, Taguig City.

Description of Property the Bank intends to acquire in the next 12 months. There are no plans to acquire properties within the next twelve (12) months. However, the Bank will lease properties to serve as sites for its branches. These prospective sites are either being presently identified or currently the object of preliminary negotiations with the lessors.

Properties Leased

a. Offices

OFFICE	LOCATION	TERM	MONTHLY RENTAL	EXPIRY DATE
16F to 19F and GF Fort Legend Towers	Bonifacio Global City, Taguig City	10 years	PhP2,742,205.81	14-Apr-20

b. Condominium Units

LEASED PREMISES	LOCATION	TERM	MONTHLY RENTAL	EXPIRY DATE
House and Lot in Dasmariñas Village	Makati City	2 years	PhP310,330.00	11/30/2014
Condominium Unit in Serendra	Taguig City	1 year	PhP125,000.00	7/9/2014
House and Lot in Ayala Alabang Village	Muntinlupa City	2 years	PhP130,000.00	8/10/2014
Condominium Unit in The Luxe Residences	Taguig City	1 year	PhP111,000.00	8/24/2014
Condominium Unit in Serendra	Taguig City	1 year	PhP107,100.00	10/6/2014
Condominium Unit in Serendra	Taguig City	3 months	PhP80,000.00	2/28/2014
Condominium Unit in Serendra	Taguig City	1 year	PhP68,230.5	8/12/2014
Condominium Unit in Serendra	Taguig City	1 year	PhP73,443.5	3/13/2014
Condominium Unit in Bellagio III	Taguig City	1 year	PhP105,000.00	3/14/2014

c. Branches

NAME OF BRANCH	LOCATION	TERM	MONTHLY RENTAL	EXPIRY DATE
Alabang	Muntinlupa City	5 years	PhP241,949.44	2/28/2017
Ayala	Makati City	5 years	PhP87,651.20	12/31/2014
Angeles	Angeles City	5 years	PhP77,406.00	6/14/2016
Binondo	Manila	5 years	PhP156,279.37	5/31/2016
Buendia	Makati City	5 years	PhP151,470.27	5/31/2018
Cagayan de Oro	Cagayan de Oro	7 years	PhP135,815.66	10/31/2016
Carmona	Cavite	5 years	PhP73,035.72	12/31/2015
Cavite	Cavite	1 year	PhP68,250.00	12/30/2014
Cebu-Banilad	Cebu City	5 years	PhP242,000.00	7/31/2015
Cebu-Magallanes	Cebu City	5 years	PhP190,578.50	9/30/2016
Cebu-Mandaue	Mandaue City	5 years	PhP127,939.35	11/30/2016
Davao	Davao City	5 years	PhP153,349.60	6/30/2016
Dela Costa	Makati City	5 years	PhP168,086.20	10/14/2016
Del Monte	Quezon City	5 years	PhP96,800.00	7/1/2017
Greenhills	San Juan City	5 years	PhP218,816.40	7/31/2018
Las Piñas	Las Piñas City	5 years	PhP158,000.00	5/31/2017
Mabini	Manila	5 years	PhP165,456.0	6/30/2014
Marikina	Marikina City	5 years	PhP83,597.85	12/31/2015
Ortigas	Pasig City	5 years	PhP346,007.16	7/7/2014
Rada	Makati City	5 years	PhP135,355.00	6/30/2016
Subic	Zambales	5 years	$2,866.86	1/3/2019
Sucat	Paranaque City	5 years	PhP110,931.00	2/28/2015

All lease contacts have renewal options upon the terms and conditions mutually acceptable to the Bank and the lessors.

***The Bangko Sentral ng Pilipinas in its letter dated December 28, 2012 approved the temporary closure of the Kalookan branch by the first quarter of 2013. Kalookan branch was temporarily closed on March 31, 2013.**

Item 3. Legal Proceedings

Except for cases or proceedings, which are incidental to its business such as suits for sum of money, foreclosures, writs of possession, employee relations, and other cases arising from loan transactions and operations, the Bank has no material pending legal proceedings for or against it.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of the security holders during the fourth (4^{th}) quarter of the year covered by the report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

1. Market Information

As stated earlier, the PSE in its Memorandum No. 2012-0010 dated February 20, 2012 approved the Petition for Voluntary Delisting effective February 24, 2012. Market prices of the Bank's shares since 1st quarter of 2010 to 1st quarter of 2012 are as follows:

QUARTER	HIGH	LOW
1Q '12	25.50	20.00
4Q'11	28.00	19.00
3Q'11	21.00	20.00
2Q '11	22.00	21.00
1Q '11	21.00	21.00
4Q'10	23.50	21.00
3Q'10	22.00	20.00
2Q '10	22.00	15.25
1Q '10	25.00	24.00

As of February 20, 2012, which is the last trading date prior the effective date of delisting at the PSE, the information showed a closing price of P20.00.

There was no sale of any securities made by the Bank within the last three (3) years.

2. Holders

The number of shareholders of record as of March 31, 2014 is 104.

Common Shares outstanding as March 31, 2014 are 247,968,731. Out of the said outstanding shares, 484,920 are Treasury shares as a result of the tender offer conducted pursuant to PSE's Voluntary Delisting Rules.

The Top 20 Stockholders of record as of March 31, 2014 are as follows:

Name	Number of Shares Held	% to Total
CTBC Bank Co., Ltd.	246,495,812	99.41
CTBC Bank (Philippines) Corp.	484,920	00.20
Carlos Z. Ortoll &/or Ma. Asuncion M. Ortoll	371,156	00.15
Alfonso Lao	185,150	00.07
Arlene Ravalo Ulanday &/Or Bethel Ann Ravalo &/Or Eliodoro Ravalo	75,000	00.03
Chen Li Mei	65,992	00.03
Unicapital Securities, Inc. FAO Carlos Z. Ortoll &/or Ma. Asuncion Ortoll	58,261	00.02
Bettina V. Chu	29,095	00.01
Regan C. Sy	26,450	00.01
PCD Nominee Corporation (Filipino)	15,795	00.01
Ching L. Tan	13,225	00.01
Razul Z. Requesto	13,225	00.01

Guat Tioc Chung	13,225	00.01
Bernardito U. Chu	13,225	00.01
Oliverio Guison Laperal	13,225	00.01
Hui Ching Fai &/or Go Yik Suen	6,612	00.00
Regina Capital Dev. Corp. 000351	6,325	00.00
Rowena Co	3,967	00.00
Optimum Securities Corporation	3,345	00.00
Assissi C. Raval	2,645	00.00

3. Dividends

The Bank declared 15% stock dividends last August 25, 2005, which was subsequently approved by its shareholders on December 22, 2005. The BSP later approved the 15% stock dividend on February 20, 2006. On April 4, 2006, 28,124,997 common shares representing the 15% stock dividends were paid to the Bank's shareholders and simultaneously listed with the PSE.

On March 30, 2007, the Bank's Board of Directors once again made another 15% stock dividend declaration, to be paid out of the Bank's unissued shares. The same was ratified by the shareholders during the Bank's annual shareholders' meeting held on June 28, 2007, and subsequently approved by the BSP on September 20, 2007. On November 15, 2007, an additional 32,343,734 common shares representing 15% stock dividends were listed in the PSE and issued to the Bank's stockholders of record as of record date.

Any dividend declaration to be made by the Bank is subject to approval by the BSP, SEC and PSE. Currently, the Bank's retained earnings had been restricted in full for the following purposes: i.) to comply with the requirements of the ICAAP pursuant to BSP Circular 639 which took effect on January 1, 2010; ii.) to cover the resulting treasury shares acquired in relation to the Bank's voluntary delisting and tender offer; and, iii.) to provide for buffer in preparation for BASEL III requirements.

4. Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction

There has been no sale of exempt securities nor of securities constituting an exempt transaction within the past 3 years.

Item 6. Management's Discussion and Analysis or Plan of Operation.

1. Management Discussion and Analysis and Results of Operations (Last Three Years, 2012, 2011, 2010)

FY 2011 (*as restated*) Compared to FY 2010

The Bank's net income after tax for the year end December 31, 2011 (*as restated*) stood at Php332.8M, a 19% decline compared to last year of Php410M. This translates to a return on equity (ROE) and return on assets (ROA) of 5.6% and 1.41%, respectively.

Decrease in net income was due to decline in interest income by 12% on account of lower average volume of loans. However, interest expense on deposit liabilities slid by 71% or Php164M as the Bank was able to lower its average cost of funds to 1.49% per annum from last year's 2.21% per annum.

Total fee income rose by 4% mainly brought about by hefty increase in fixed income trading activities by 20% or Php64M better than last year's performance.

Provisions for impairment improved by 39% or Php81M lower than last year due to reversals of specific impairment on fully settled loan accounts and improvement in credit quality.

Total resources stood at Php25.8 billion, reflecting a 6% increase compared to December 2010 level. Total deposits as of December 31, 2011 amounted to Php17.3 billion, 2% higher compared to 2010 year-end level of Php16.9 billion.

Non-performing loans (NPL) ratio as of December 31, 2011 stood at 1.34% as compared to 1.66% as of December 2010. The Bank's capital adequacy ratio (CAR) remains high versus the industry at 29.1% as of December 31, 2011, better than year-end 2010 CAR of 25.3% and significantly above the regulatory requirement of 10%.

FY 2012 *(as restated)* Compared to FY 2011 *(as restated)*

The Bank posted a Php322 million net income after tax for the year 2012 (as restated), 2.26% lower than last year of Php323 million. This translated to an ROE and ROA of 5.1% and 1.5%, respectively. Net interest income stood at Php1.495 billion from Php1.511 billion last year, mainly brought by lower average volume of loans from Php14.37 billion to Php12.73 billion arising from net corporate loan pay downs and partly offset by lower interest expenses on deposit liabilities due to lower average volume of deposits from Php15.13 billion to Php12.86 billion.

Service fees and commission income increased by 2.97% from Php197.5 million to Php203.4 million brought mainly by higher credit related fees from corporate finance transactions. Furthermore, miscellaneous income went up due to higher recoveries from previously written-off assets. Likewise, foreign exchange gains went up to Php11.4 million from (Php5.5 million) last year. On the other hand, trading gains went down by 15.75% from Php315.6 million to Php265.9 million.

The Bank recognized a charge of Php192.07 million as provisions for impairment and credit losses for the period, maintaining its conservative stance on loan loss provisioning.

Total resources stood at Php21.6billion, lower by 16% compared to last year's level. Total deposits as of December 31, 2012 amounted to Php12 billion, 31% lower compared to 2011 year-end level of Php17.3 billion.

Non-performing loans (NPL) ratio as of December 31, 2012 stood at 1.40% as compared to 1.34% as of December 2011. The Bank's capital adequacy ratio (CAR) remains high relative to industry average at 30.73% as of December 31, 2012, better than year-end 2011 CAR of 29.12% and way above the regulatory requirement of 10%.

FY 2013 Compared to FY 2012 *(as restated)*

Total resources of the Bank expanded by 30% to Php28.14 billion this 2013 as compared to Php21.6 billion level previous year. Loans and receivables – net surged by 20% to Php16.2 billion from Php13.5 billion from December 2012 level as the corporate loan portfolio posted a robust growth.

Deposit level as of year-end 2013 stood at Php17.4 billion, 45% higher than the December 2012 level of Php12.0 billion.

Non-performing loans (NPL) ratio-net as of December 31, 2013 stood at 1.48% as compared to 1.40% as of December 2012. The Bank's capital adequacy ratio (CAR) remains high relative to industry average at 25.99% as of December 31, 2013, way above the regulatory requirement of 10%.

For the year ending December 31, 2013, the Bank's net income softened to Php191 Million from Php322 Million in 2012. This translated to an ROE and ROA of 2.9% and 0.7%, respectively. Non-interest income went down by 2.82% due to lower trading gains and handling fees partly offset by higher foreign exchange gains and other miscellaneous income. Net interest income slightly decreased by 2.4% or Php35.8 million.

The Bank recognized a charge of Php264.6 million as provisions for impairment and credit losses for the period, maintaining its conservative stance on loan loss provisioning. Operating expenses were well contained at 3.94% increase from previous year.

Key Financial Indicators

The following ratios are used to assess the performance of the Bank presented on a comparable basis:

	December 31, 2013	December 31, 2012 (as restated)
Return on Average Equity (ROE)	2.92%	5.09%
Return on Average Assets (ROA)	0.74%	1.48%
Cost-to-Income Ratio	70.59%	66.21%

	December 31, 2013	December 31, 2012 (as restated)
Non-Performing Loan Ratio (NPL)	1.48%	1.40%
Non Performing Loan Cover	66%	72%
Capital Adequacy Ratio	25.99%	30.73%

The manner by which the Bank calculates the above indicators is as follows:

- Return on Average Equity ---- Net Income divided by average total capital funds for the period indicated
- Return on Average Assets ---- Net Income divided by average total resources for the period indicated
- Cost to income ratio --- Total Operating expenses divided by the sum of net interest income plus other income
- Non-Performing Loan Ratio --- Total non-performing loans divided by gross loan portfolio
- Non-Performing Loan Cover --- Total allowance for probable loan losses divided by total non-performing loans
- Capital Adequacy Ratio --- Total capital divided by risk-weighted assets

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2013

Liquidity Ratio
The ratio for the year 2013 and 2012 were as follows:

	2013	2012
Net liquid assets	**P 8,039,671,878**	P5,179,319,352
Total deposits	**17,419,908,898**	12,000,063,215
Ratio of net liquid assets to total deposits	**46 %**	43%

Net liquid assets consist of cash, due from banks, interbank loans, securities held for trade and available for sale less interbank borrowings.

Debt to Equity Ratio
The ratio for the year 2013 and 2012 were as follows:

	2013	2012
Total liabilities	**P 21,645,806,668**	P15,127,044,162
Total equity	**6,491,461,617**	6,459,149,353
Ratio of debt to equity	**333%**	234%

Assets-to-Equity Ratio
The ratio for the year 2013 and 2012 were as follows:

	2013	2012
Total assets	**P28,137,268,285**	P21,586,193,515
Total equity	**6,491,461,617**	6,459,149,353
Ratio of total assets to equity	**433%**	334%

Interest Rate Coverage Ratio
The ratios for the year 2013 and 2012 were as follows:

	2013	2012
Income before income tax	**P326,986,974**	P505,109,179
Interest expense	**156,743,198**	156,063,178
Interest coverage ratio	**209%**	324%

Profitability Ratios
The ratios for the year 2013 and 2012 were as follows:

	2013	2012
a.) Net income	**P191,380,363**	P322,184,089
b.) Average total equity	**6,552,876,210**	6,280,251,218
Return on average equity (a/b)	**2.9%**	5.1%
c.) Net income	**P191,380,363**	P322,184,089
d.) Average total assets	**25,778,222,281**	21,550,268,929
Return on average assets (c/d)	**0.7%**	1.5%
e.) Net interest income	**P1,459,471,066**	P1,495,295,163
f.) Average interest earning assets	**20,667,372,000**	19,020,105,081
Net interest margin on average earning assets (e/f)	**7.1%**	7.9%

Additional Management Discussion and Analysis (for those with variances of more than 5% December 31, 2013 vs. December 31, 2012)

Balance Sheet –

Cash and Other Cash Item increased by 13% from Php346M to Php391M on account of higher levels of cash in vault and in ATMs.

Due from Bangko Sentral ng Pilipinas increased by 36% from Php4.3B to Php5.9B brought about by higher SDA (special deposit account) and DDA (demand deposit account) placement.

Due from other banks increased by 338% from Php457M to Php2.0B mainly due to higher levels of both due from local and foreign banks. Interbank loans increased from nil to Php1.4B in December 2013.

Financial assets at FVPL increased by 38% due to the increase in the volume of peso held-for-trading (HFT) – treasury notes by P478M but partly offset by decrease in the volume of foreign currency held-for-trading (HFT) – ROP Bonds by P230M. Also, held-to-maturity (HTM) securities increased by 9% on account of higher peso and foreign currency HTM securities. On the other hand, available for sale (AFS) investments went down by 67% mainly attributable to lower volume of both peso and foreign currency denominated available for sale (AFS) securities.

Loans and receivables (net) went up by 20% from Php13.5B to P16.2B attributable to higher volume of both peso and foreign currency loans.

Deferred Income Tax (DIT) declined by 11% due to reversal of DIT in relation to the write-off of fully provided loans and receivables.

Property, Plant, & Equipment decreased by 18% from Php201M to Php165M due to various assets reaching full depreciation during the period.
Investment properties went up by 297% on account of various foreclosures during the period.

Other assets went down by 16% owing to lower software licenses (net) on account of various assets full depreciation during the period, lower prepaid expenses and miscellaneous assets as compared last year.

Total deposits rose by 45% from Php12B to Php17.4B attributable to the increase in all product types of deposits. Also, Bills payable went up by 54% from Php1.9B to Php3B on account of higher foreign currency interbank borrowings.

Derivative Liabilities went down by 57% from P3.7M to P1.6M. Outstanding Acceptances increased by 37% due to the higher volume of foreign currency acceptances partly offset by lower local currency acceptances. Similarly, Manager's Checks went up by 82% from Php36.9M to Php67.2M.

Accrued Interest, Taxes and Other Expenses went up by 52% from P227M to P344.6M due to higher interest payable on high cost deposits at period-end. Accrued Income Tax Payable decreased by 52% as a result of lower provision for income tax. On the other hand, Other Liabilities went down by 10% mainly due to lower accounts payable partly offset by higher miscellaneous liabilities – DBP and withholding taxes payable.

Income Statement (variance analysis for December 31, 2013 vs. December 31, 2012)

Interest income on trading and investment securities dropped by 16.11% to Php114 million from Php137 million last year. Also, interest income on interbank loans went down by 51.05% due to the decrease in average volume of both peso and foreign currency interbank loans receivable. On the other hand, interest income on deposits with other banks went up by 807.91% mainly attributable to higher average volume of Due from BSP - SDA (special deposit account).

Interest expense on bills payable grew by 126.53% from Php5.8 million to Php13.1 million due to higher average volume of foreign currency borrowings.

Total trading gains and foreign exchange gains dropped to Php248 million, 10.57% lower than last year. Miscellaneous income as of December 31, 2013 totaled Php104.9M, a 20.45% increase as compared to the same period last year attributable to higher ATM fee income and recoveries from previously written-off assets.

Provision for impairment and credit losses totaled Php264.58M as of December 31, 2013, 37.75% increase from Php192.07M last year.

Compensation and fringe benefits went up by 5.68% from Php615 million to Php650 million for the period. Also, taxes and licenses increased by 18.34% to Php152 million this year. On the other hand, miscellaneous expense dropped by 5.69% from P197.9 million to P186.7 million in previous year.

Material Events and Uncertainties:

There are no known trends, demand, commitments, events or uncertainties that will have material impact on the Bank's liquidity. There are also no known material commitments for capital expenditures as of reporting date. There are no known trends, events, uncertainties that had or reasonably expected to have a material favorable or unfavorable impact on income from continuing operations. There are no significant elements of income or loss that arose from the Bank's continuing operations. Likewise there are no seasonal aspects that had material effect on the financial condition or results of operations.

There are no known events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation. Also, there are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unconsolidated entities or other persons created as of the reporting date.

3. Plan of Operations

The Bank attributes its stable financial performance to a steady stream of interest revenues, a robust flow of non-interest income from treasury trading activities, strong management of asset quality, and prudent spending of operating expenses to have a better efficiency ratio.

The Bank's overall strategy is to further improve market position and profitability by continuously expanding Personal and Corporate Loan portfolio. Institutional Banking Group shall accelerate portfolio build up via lead roles in corporate finance activities and provide full function banking in the form of cash management services and transaction-based lending. Treasury Group will be expanding its trading business by venturing into other derivative products and offer higher yielding products to sophisticated clientele. Likewise, Retail Banking Group plans to strengthen its channel deployment and sales management model for both unsecured lending and mortgage business and re-engineer branch operations to strengthen risk control and performance management.

With its strong capitalization, the Bank continues to invest in its chosen markets where it is well positioned to build industry-leading franchises. Part of its investments would go to the enhancement of risk management systems and branding initiatives.

Item 7. Financial Statements

The consolidated financial statements and schedules are filed as part of the Form 17-A.

INFORMATION ON INDEPENDENT ACCOUNTANT
(EXTERNAL AUDIT FEES (MC No. 14, Series of 2004)

(a) Audit and Audited-Related Fees

The Bank paid the following audit fees to Sycip Gorres Velayo & Co. (SGV), R.G. Manabat & Co (RGM) and for the fiscal year indicated:

Fiscal Year	Amount
SGV	
For 2011 paid in 2011	Php1,170,000.00
For 2011 paid in 2012	Php640,640.00
For 2012 paid in 2012	Php369,600.00
MS&C	
For 2012 paid in 2012	Php652,960.00
For 2012 paid in 2013	Php739,200.00
For 2013 paid in 2013	Php418,880.00
For 2013 paid in 2014	Php566,720.00

For the calendar year 2011, the accounting firm of SGV was appointed as the Bank's principal accountant and external auditor as part of the Bank's corporate governance practice, which requires an evaluation of relationship on a regular basis.

For the calendar years 2013 and 2012, RGM, the local firm of KPMG International has been appointed as the Bank's external auditor.

To date, RGM has unbilled charges of Php369,600.00 for 2013 audit.

The Bank paid the following fees to SGV for other assurance and related services and for the fiscal year indicated:

Fiscal Year	Amount
2011	Php2,637,743.38
2012	Php274,400.00

There are no other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the Bank's financial statements other than those described above.

(b) Tax & All Other Fees

The Bank paid a total amount of Php124,646.40 and Php111,141.20 for 2012 and 2011, respectively to its Tax Counsels, ACCRA, related to the tax assessments by Bureau of Internal Revenue (BIR). The Bank paid Php134,400.00 for 2012 for tax advisory services rendered by SGV.

Likewise, there are no other fees paid other than those services described above.

(c) Audit Committee's Approval Policies and Procedures for the above services

The engagement of the services of the Bank's external auditor is evaluated by the Audit Committee. Consistent with the provisions of the Code of Corporate Governance and the Bank's Audit Committee Charter, the appointment of the external auditor is nominated by the Audit Committee for Board Approval and subsequently for the ratification/approval by the shareholders.

The Bank's audit committee also evaluates and determines any non-audit service provided to the Bank by the external auditor who is handling the financial audit of the Bank and keeps under review the non-audit fees paid to the external auditor both in relation to their significance to the auditor and in relation to the Bank's total expenditure on consultancy.

The audit committee also reviews and recommends to the Bank's Board of Directors any appropriate action to ensure the external auditor's independence.

A reconciliation of retained earnings available for dividend declaration which shall present the prescribed adjustments as indicated in Annex 68-C

Schedule II of Exhibit 2, the Bank's Audited Financial Statements for the fiscal year ended as of December 31, 2012, shows such reconciliation and the corresponding footnotes. Schedule II is reproduced on the succeeding page. As mentioned earlier, the Bank's retained earnings are currently fully restricted.

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2013

Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning[1]		P -
Net income during the year closed to retained earnings	P191,380,363	
Less: Non-actual/ unrealized income net of tax		
Equity in net income of associate/ joint venture	-	
Unrealized foreign exchange gain-net (except those attributable to cash and cash equivalents)	13,116,441	
Unrealized actuarial gain	-	
Fair value adjustment (marking to market gains)	(4,537,563)	
Provision for deferred tax asset	(20,377,274)	
Fair value adjustment of Investment Property/AR- ICCS resulting in gain	12,060,616	
Adjustment due to deviation from PFRSs/GAAP – gain	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRSs	2,724,573	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	-	
Adjustment due to deviation from PFRSs/GAAP – loss	-	
Loss on fair value adjustment of investment property (after tax)	-	
Net income actually earned during the year		**188,393,571**
Add/Less:		
Dividend declaration during the period	-	
Appropriations of Retained Earnings during the period		
Trust operations	-	
Treasury shares[1, 2]	-	
BASEL III requirements and ICAAP[1]	(188,393,571)	
Reversal of appropriations	-	
Effects of prior period adjustments	-	**(188,393,571)**
Total retained earnings, available for dividend declaration[1], ending		**P -**

[1] - At the regular meeting of the BOD held on February 23, 2012, the BOD approved the restriction of the full amount of retained earnings for the following purposes:

i.) to comply with the requirements of the ICAAP pursuant to BSP Circular 639 which took effect on January 1, 2010.

ii.) to cover the resulting treasury shares acquired in relation to the Bank's delisting and share buyback exercise. And

iii.) to provide for buffer in preparation for BASEL III requirements.

[2] - Amount includes transaction cost.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

For the calendar year 2011, the accounting firm of SGV was appointed as the Bank's principal accountant and external auditor as part of the Bank's corporate governance practice, which requires an evaluation of relationship on a regular basis.

For the calendar years 2012 and 2013, MS&C, the local firm of KPMG International has been appointed as the Bank's external auditor.

The Bank has no disagreement with any of its external auditors in any matter of accounting principle, practice, or financial disclosures.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer-

1. Directors

The following directors shall hold office from date of elections until the next annual shareholders meeting or their resignation unless sooner terminated or removed in accordance with law:

JACK LEE, a.k.a. Lee Wen-Hung, Taiwanese, assumed his post as Chairman of the Board on October 26, 2011. He obtained his Master's in Business Administration from California State University in 1979 and Bachelor of Arts in Economics from Soochow University, Taipei. He is concurrently the Chairman of CTBC Venture Capital Co., Ltd* under CTBC Financial Holding Co., Ltd. He was Chairman of CTBC Asset Management Co., Ltd.* from 2011 to 2012. Mr. Lee has been with CTBC Bank Co., Ltd.* since 1993. He served various positions as the Vice Chairman of CTBC Securities Co. Ltd.* from 2005 to 2008, the Executive Vice President and General Auditor of CTBC Bank Co., Ltd. from 2002 to 2005, the Senior Vice President and General Manager of Credit Department and International Department from 1995 to 2002 at the Bank. He is 60 years old.

WILLIAM B. GO, Filipino, has been the Vice Chairman of the Board since October 15, 2001. He also served as concurrent President from April 3, 2008 to January 31, 2009. A Certified Public Accountant, he earned his Bachelor of Science degree from the University of the East and a Master of Science in Business Administration degree from the University of Missouri, Kansas City, U.S.A. He is Chairman of Investors Securities, Inc. and Gama Enterprises, Inc.; Chairman and President of Big Blue Realty Corporation; and President of Serico, Inc.; and, holds various directorship positions in other institutions. He served as the President of Philippine Bank of Communication from 1985 to 1995. Mr. Go has been with the Bank since 1995 as President until October 15, 2001 when he was elected Vice Chairman. He is 74 years old.

MARK CHEN, a.k.a. Chen Ching-Ming, Taiwanese, assumed the position of member of the Board of Directors on January 20, 2009 and then as President and CEO on February 1, 2009. Prior to his appointment, he was named Executive Vice President and Chief Banking Operations Officer. He received his Bachelor of Science in Public Finance degree from National Cheng-Chi University and Master of Arts in Finance from the University of Iowa in the United States. He previously worked with ABN AMRO's Taipei Branch, its Asia Pacific Regional Center in Singapore, its subsidiary Bank of Asia in Thailand and its Shanghai Branch, before joining the CTBC Bank family in 2006 as Chief Country Officer of CTBC Bank in Vietnam. He is 45 years old.

PETER LIU a.k.a. Liu Chin-Chung, Taiwanese, is re-elected to the Board on February 23, 2012. He obtained his Masters in Business Administration from National Taiwan University of Science & Technology in 2000 and Bachelor of Business Administration from the National Taiwan University in 1976. He is concurrently Executive Vice President and Head of International Country Management Office of

CTBC Bank Co., Ltd. (Taiwan). He was Commissioner of PT Bank CTBC Indonesia* from 2011 to 2012. Prior to that, he served as President of PT Bank CTBC Indonesia from 2006 to 2011, Managing Director of CTBC Bank from 2003 to 2006, Senior Vice President of Ta Chong Bank from 2000 to 2003, Senior Vice President of Le Credit Lyonnais from 1998 to 2000, Senior Vice President of Chase Manhattan from 1994 to 1998, and Vice President of Deutsche Bank from 1989 to 1994. He was a member of the board of the Bank from 2003 to 2004. He is 60 years old.

FRANK SHIH ** a.k.a. Shih Jiing-Fuh, Taiwanese obtained his Masters in Business Administration from the University of Texas in Austin, U.S.A. and Bachelor of Economics from the National Taiwan University in Taiwan. He is concurrently Division Head of South East Asia Region Division, Chief Strategy Officer and Division Head of Global Commercial Product Division of CTBC Bank Co., Ltd. Mr. Shih has been with CTBC Bank Co., Ltd. since 2001. He served various positions in CTBC Bank Co., having been the General Manager of Taipei Regional Center II from 2001 to 2003; General Manager of CTBC Hong Kong branch from 2003 to 2005; Regional Division Head, Institutional Banking from 2005 to 2007; North America Region Division Head from 2009 to 2010; and Symphony Project Director from 2006 to 2012. Prior to that, he served as Vice President of ABN AMRO Bank Taipei Branch in 1992 to 2001. He is 49 years old.

** Note: The affiliates of CTBC Bank Co., Ltd. likewise amended their English name from Chinatrust to CTBC.*

*** On October 30, 2013, Messr. Philip Ong resigned as Director and the Board appointed Messr. Frank Shih to serve the unexpired term of Messr. Philip Ong.*

Independent Directors

NG MENG TAM, Filipino, is an Independent Director of the Bank, having been re-elected last October 25, 2007. Being one of the incorporators of Access Banking Corporation, the predecessor of the Bank, he served as Director of the Bank from 1995 to 2001. He holds a Bachelor of Science degree in Physics from the Mapua Institute of Technology. Over the past several years, he has been President of Cinema 2000, Inc., and the President of High Pointe Property, Inc. He is 68 years old.

EDWIN B. VILLANUEVA, Filipino, has been an Independent Director of the Bank since 2002 and is the Chairman of the Audit Committee. He received his Bachelor of Science degree in Management Engineering (cum laude) from Ateneo De Manila University and Master's degree in Business Administration from Wharton School at the University of Pennsylvania. He is the Chairman of VFL Advisors, Inc. and President of ABV Inc., a real estate holding company. He is the Vice Chairman of the Market Governance Board of the Philippine Dealing Exchange. He also holds directorships in the Makati Supermart Group, Testech Inc., and DFNN Inc., Iwave Inc., and CDC/Quadrillion group, and Adviser to the Board of Philratings, Inc. He is 63 years old.

The independent directors have met and continue to meet all the qualifications and possess none of the disqualifications of an Independent Director under the Bank's

Code of Corporate Governance, Section 38 of the Securities Regulation Code and relevant BSP rules.

2. Executive Officers

The following are the Bank's executive officers:

MARK CHEN, a.k.a. Chen Ching-Ming, Taiwanese, assumed the position of member of the Board of Directors on January 20, 2009 and then as President and CEO on February 1, 2009. Prior to his appointment, he was named Executive Vice President and Chief Banking Operations Officer. He received his Bachelor of Science in Public Finance degree from National Cheng-Chi University and Master of Arts in Finance from the University of Iowa in the United States. He previously worked with ABN AMRO's Taipei Branch, its Asia Pacific Regional Center in Singapore, its subsidiary Bank of Asia in Thailand and its Shanghai Branch, before joining the CTBC Bank family in 2006 as Chief Country Officer of CTBC Bank in Vietnam. He is 45 years old.

RAYMUNDO MARTIN M. ESCALONA, Filipino, earned his Bachelor of Science in Commerce degree, Major in Management of Financial Institutions, at De La Salle University. He joined the Bank in January 2008 as Executive Vice President and Head of the Institutional Banking Group. Prior to this, he was the Executive Vice President and Corporate and Institutional Bank Head of Australia and New Zealand Bank, Manila Branch. He has also served as First Vice President and Unit Head of Corporate Banking and Financial Institutions in BDO; Vice President and Head of Large Local Corporates Unit and Deputy Corporate Banking Head in Deutsche Bank AG, Manila Branch; and Assistant Vice President of Relationship Management Unit in Citytrust. He is 53 years old.

TAMMY HUANG, a.k.a. Tien-Ying Huang, Taiwanese, earned her Bachelor's degree from National Chengchi University. She is Executive Vice President and Chief Risk Officer. She joined CTBC Bank (Taipei) in November 1998 as Assistant Vice President and Head of the Credit Risk Management International Division. In January 2005, she became Vice President and Head of the Credit Risk Management Regional Division. In December of the same year, she was made Senior Vice President of the International Credit Risk Department of Head Office and eventually, the Head of the International Credit Control Department. In February 2012, she was assigned to the CTBC's securities affiliate, then called Chinatrust Securities Company, Ltd. until her assignment to CTBC Bank (Philippines) Corp. as Executive Vice President. She is 53 years old.

EDGARDO A.M. MENDOZA, JR., Filipino, earned his Bachelor of Arts degree in Psychology from De La Salle University, and his Masters in Business Administration degree from the Ateneo de Manila University. He is Senior Vice President and Head of the Human Resource and Administration Group. Prior to joining the Bank in August 2008, he was with the BPO/call center industry for five years, as General Manager for Human Resources of IBM Daksh Philippines, and as Human Resources Director of iTouchPoint Softech Ltd. He also had a 10-year stint with three other banks—the Rizal Commercial Banking Corporation (RCBC), where he was First Vice President and HR Group Head; Philippine Savings Bank (PSBank), where he was First Vice President and HR Group Head; and Solidbank, where he was Vice

President and HR Group Head. For more than 10 years, he was also a faculty member of both the Ateneo de Manila University and De La Salle University Graduate School of Business, where he taught Organizational Behavior at the MBA level. He is 56 years old.

MARIA GRETCHEN S. MACABASCO, Filipino, earned her Bachelor of Science in Business Management degree from the Ateneo de Manila University. She is Senior Vice President – Top Tier Head of Institutional Banking Group. Prior to joining the Bank in August 2008, she was Senior Vice President – Head of Trade of Australia and New Zealand Bank, Manila Branch. She also served as First Vice President – Structured Products Group Head at Philippine Bank of Communications. For almost 6 years, she was with ABN AMRO Philippines, her last role was Vice President – Working Capital Head. Prior to that, she worked for almost 16 years with Citibank N.A. Manila where her last job was as a Relationship Manager, Assistant Vice President – Global Relationship Banking. She is 50 years old.

JIMMY ARSENIO Y. SAMONTE, Filipino, a Certified Public Accountant, obtained his Bachelor's degree in Commerce, Major in Accountancy (cum laude), from the University of Santo Tomas. He also attended the Banking Intermediate Industry Training School at the Center for Professional Education of Arthur Andersen and Co.; St. Charles, Illinois, USA. He is Senior Vice President and Head of Internal Audit. He also served as the Bank's Compliance Officer in 2000 to 2001. Prior to joining the Bank, he was Audit Manager of the Financial Services Group of Sycip, Gorres, Velayo & Co. (SGV & Co.), a member firm of Ernst & Young Global Limited. He has been with the Bank since October 1998. He is 44 years old.

CECILIA E. TABUENA, Filipino, graduate of Bachelor of Science in Commerce major in Marketing Management and Bachelor of Arts in Psychology from De La Salle University. She also finished her Master of Business Administration major in Finance from Peter F. Drucker Graduate School of Management, Claremont Graduate University in California, USA. She brings with her almost 20 years of experience first starting as a Money Market Trader at All Asia Capital and Trust Company. She then took up a position in The Long Term Credit Bank of Japan as a Corporate Finance Associate when she was based in Los Angeles, California. Following this US assignment, she returned to the Philippines to join the equities business of Citibank, N.A. as Equities Research Analyst before taking several positions and later on becoming the Vice President and Senior Transactor of the bank's Corporate Finance Department. In 2003, she joined the DCM team of Citi's Emerging Markets Sales and Trading prior to being appointed as the Head of Debt Capital Markets. In 2008, she joined Security Bank Corporation as First Vice President and Head of Fixed Income Securities Distribution. She is 47 years old.

OLIVER D. JIMENO, Filipino, graduate of Master in Business Administration and Bachelor of Science major in Business Administration from University of the Philippines. He is Senior Vice President and Head of Treasury Group. He has been with the Bank since December 1999, having served as Head of Treasury's Domestic Desk from 1999 to 2004 and Head of the Liquidity and Balance Sheet Management Desk from 2005 to 2009, eventually becoming the Bank's Treasurer in May 2009. Prior to joining CTBC Bank Philippines, he was a Swap Trader at PCIBank and a Trust Marketing Officer at Citytrust. He is 42 years old.

3. *Legal Proceedings*

None of the directors and executive officers is personally involved in any material pending legal proceedings in any court or administrative agency of the government.

4. *Significant Employee*

There is no significant employee who is not an Executive Officer and who is expected to make significant contribution to the business.

5. Family Relationship

No family relationship exists among the Bank's directors and executive officers.

Item 10. Executive Compensation

1. Summary Compensation Table of Executive Officers

	I N M I L L I O N P E S O S			
Name	Annual Salary	Bonus	Others	Total
2012				
Executives (5)	23.35	4.87	3.88	32.11
2013				
Executives (5)	26.28	5.33	7.2	38.89
2014				
Executives (5)	28.26	4.19	12.30	44.75
(Estimate)				

In 2013, the Bank paid approximately P38.89 million as a total compensation to the following executive officers:

Mark Chen	President and CEO
Raymundo Martin Escalona	Executive Vice-President
Ma. Gretchen S. Macabasco	Senior Vice-President
Cecilia E. Tabuena	Senior Vice-President
Oliver D. Jimeno	Senior Vice-President

For the year 2014, it is estimated that approximately P44.75 million will be paid to the following executive officers:

Mark Chen	President and CEO
Raymundo Martin Escalona	Executive Vice-President
Tammy Huang	Executive Vice-President
Cecilia E. Tabuena	Senior Vice-President
Oliver D. Jimeno	Senior Vice-President

2. Compensation of Directors

The aggregate compensation by the Bank to its Directors, excluding the above executives and other officers, amounted to approximately P8.84 million in 2013. Out of this P8.84 million, the amount of P3.68 million was paid as per diem for Board meeting attendance and P2.66 million for Board Committee meeting attendance. For the year 2014, it is estimated that approximately P10.35 million will be paid to the Directors.

3. Employment Contract

There is no employment contract between bank and the named Executive Officers.

4. Warrants and Options

There are no warrants or options held by Bank's President, the named executive officers and all officers and directors as a group.

5. Standard Agreements

Except for the per diem for attendance in the Board and Committee meetings and the Director's Fee under Sections 9 and 10, Article III of the Bank's By-Laws, as amended, there is no other standard arrangement by which the directors are compensated, or are to be compensated, directly or indirectly, for any services provided as a director for the last completed fiscal year and the ensuing year.

6. Other Arrangements

There are no other arrangement, including consultancy contracts pursuant to which any director of the registrant's was compensated, or is to be compensated, directly or indirectly, during the registrant's last completed fiscal year, and the ensuing year, for any service provided as a director.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following is the person or entity known to the Bank as owning more than 5% of the Bank's shares:

Title of Class	Name and address of Record Owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage Held
Common	**CTBC Bank Co., Ltd.** **3 Songshou Rd., Sinyi District, Taipei, Taiwan, R.O.C.**	**CTBC Bank Co., Ltd.**	**Taiwanese**	**246,495,812**	**99.41%**

CTBC Bank Co., Ltd. (CTBC Ltd.) is wholly-owned by CTBC Financial Holding Co., Ltd. (CTBC Holding).

CTBC Ltd. through a resolution of its Board of Directors may authorize the Bank's Chairman, Jack Lee, and such other persons as it may deem fit to exercise the voting power over its shareholdings for and on its behalf.

1. Group Owning More Than 5% of Registrant's Voting Securities

Except for CTBC Ltd., there is no other person or group known to the Bank to be directly or indirectly the record or beneficial owner of more than 5% of any class of registrant's voting securities.

2. Security Ownership of Management as of February 28, 2014

a. Directors

Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	William B. Go 2277 Magnolia St., Dasmariñas Village, Makati City	William B. Go	Filipino	55	0.00
Common	Jack Lee 3 Songshou Rd., Sinyi District, Taipei, Taiwan, R.O.C.	Jack Lee	Taiwanese	1	0.00
Common	Mark Chen 19F Fort Legend Towers, Third Avenue corner 31st St., Bonifacio Global City, Taguig City	Mark Chen	Taiwanese	1	0.00
Common	Peter Liu 3 Songshou Rd., Sinyi District, Taipei, Taiwan, R.O.C.	Peter Liu	Taiwanese	1	0.00
Common	Frank Shih 3 Songshou Rd., Sinyi District, Taipei, Taiwan, R.O.C.	Larry Hsu	Taiwanese	1	0.00
Common	Ng Meng Tam Unit 508, ITC Building, 337 Sen. Gil Puyat Ave. Makati City	Ng Meng Tam	Filipino	1	0.00
Common	Edwin B. Villanueva VFL Advisors, Inc. 15F, Citibank Tower, 8741 Paseo de Roxas, Makati City	Edwin B. Villanueva	Filipino	1	0.00
				61	

b. Executive Officers

Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Mark Chen 19F Fort Legend Towers, Third Avenue corner 31st St., Bonifacio Global City, Taguig City	Mark Chen	Taiwanese	1	0.00
				1	

c. Directors and Officers

The aggregate shareholding of the directors and executive officers amounted to 61 shares of the Bank’s total outstanding shares.

d. Change in Control.

There is no change in control of registrant and no change in control has occurred since the beginning of the last fiscal year.

There are also no arrangements known to the Bank, which may result in a change of control of registrant.

Item 12. Certain Relationships and Related Transactions

The Bank, in its regular course of trade and business, enters into transactions with its Directors, Officers, Stockholders, and Related Interests (DOSRI) involving mainly loans and these are disclosed to the *Bangko Sentral ng Pilipinas* (BSP) in accordance with the Manual of Regulations for Banks.

All transactions of the Bank, whether with DOSRI, related parties or non-related parties, are conducted and entered in the Bank’s best interest and on “arm’s length basis”.

There are no parties that fall outside the definition of “Related Parties” under SFAS/IAS No. 24 with whom the Bank or its related parties have a relationship that enables such parties to negotiate terms and material transactions that may not be available from other more clearly independent parties on an “arm’s length basis”.

Note 26 page 87 of the Bank’s Audited Financial Statements for the fiscal year ended as of December 31, 2013, attached as Exhibit 2 of this Report, discusses the nature of such Related Party Transactions, which discussion is incorporated hereto by reference.

Disclosures required by Annex 68-E of the amended Securities Regulation Code Rule 68 and 68.1 are in Schedules IV to VII of said Audited Financial Statements.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

The Bank has adopted a Manual of Corporate Governance, which is being continually revised to align with the world's best and leading practices on corporate governance and comply with latest regulatory issuances.

Conformably with existing rules and regulations, its Articles of Incorporation and By-Laws, and Manual on Corporate Governance, the Board organized five (5) committees to assist it in governance matters consisting of the following: (1) Executive Committee; (2) Nomination, Remuneration and Governance Committee; (3) Audit Committee; (4) Risk Management Committee; and (5) Trust Committee.

- The Executive Committee is headed by Jack Lee as Chairman, with William B. Go and Mark Chen as Members. It is authorized to act on behalf of the full Board as to urgent matters that arise between its regular meetings. The committee shall have the power to direct and transact all business and affairs of the Bank which otherwise may come to the Board except as limited by the Bank's Articles of Incorporation or By-Laws or by applicable law or regulation on decisions on any matter related to mergers and acquisitions of the Bank, to issuance of debts instruments and of share capital of the Bank. It is also authorized to act immediately in order to protect the Bank or its important interests from loss or damage and these acts and decisions shall be reported and ratified at the next board meeting.

- The Nomination, Remuneration and Governance Committee is headed by Jack Lee as Chairman, with William B. Go, Edwin B. Villanueva, Ng Meng Tam and Frank Shih as Members. The NRGC which also functions as the Bank's "Committee on Corporate Governance" and "Compensation and Remuneration Committee" is responsible for ascertaining that the Board seats, including those of Independent Directors, as well as other positions that necessitate Board appointment, are filled by individuals who meet the required qualifications as set forth in the by-laws of the Bank. It oversees the periodic performance evaluation of the Board, its Committees, and the Bank's Executive Management, as well as conducts an annual self-evaluation of its performance. In its assessment of a director's performance, it considers competence, candor, attendance, preparedness, and participation in meetings. It monitors not only the Board's performance, effectiveness, and observance of corporate governance principles, but also those of the various other committees and the Executive Management of the Bank. Further, it adopts guidelines for directors serving on multiple boards and makes recommendations to the Board on the continuing education of directors, their assignment to Board committees, succession, and remuneration. It also approves the hiring and promotion of the Bank's Group Heads. Likewise, it is also involved in Human Resources matters such as the review and revision of the Performance Management System, Management Succession Plan, Organizational Structure, Headcount Management, Compensation and Benefits Policy, Merit Increase, and Performance Bonus distribution.

- The Audit Committee is headed by Independent Director Edwin B. Villanueva as Chairman, with Peter Liu and Ng Meng Tam as Members. The members of the Audit Committee must possess accounting, auditing, or related financial management expertise and experience. Tasked primarily with assisting the

Board in fulfilling its oversight responsibilities, the Audit Committee reviews the Bank's financial information, its systems of internal controls and risk management, the audit process, and compliance with significant applicable legal, ethical, and regulatory requirements. It monitors the Bank's compliance with approved internal policies and controls, as well as statutory regulations, emphasizing an accounting system that is 100% compliant with International Accounting Standards. The Committee facilitates free and open communication among Management, Compliance, Risk Management, Internal Audit, the external auditors, BSP examiners, and the Committee. It enjoys sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations. It is also empowered, among others, to endorse to the shareholders the appointment of the Bank's external auditors and oversee external audit engagements; review and comment on internal and external audit reports; and resolve financial reporting disputes between management and the auditor.

- The Risk Management Committee is headed by Frank Shih as Chairman, with Jack Lee, William B. Go, Mark Chen, Peter Liu and Ng Meng Tam as Members. Responsible for the development and oversight of the Bank's Risk Management Program, the Risk Management Committee oversees the system of limits to discretionary authority that the Board delegates to management. It is tasked to ensure that the system remains effective, that the limits are observed, and that immediate corrective actions are taken whenever limits are breached. To achieve this, the Committee takes on the critical role of identifying and evaluating the Bank's risk exposures, ensuring that the appropriate risk management strategies and plans are in place and ready to be executed as necessary, and evaluating the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness. Hand in hand with the Chief Risk Officer which functions under the auspices of the Committee, it performs oversight functions in managing credit, market, liquidity, and operational risks.

- The Trust Committee is headed by Jack Lee as Chairman, with William B. Go, Mark Chen, Frank Shih and the Trust Officer as Members. It reviews and approves the quality and movement of the Bank's trust assets, including the opening and closing of trust and other fiduciary accounts; the initial review of assets placed under the trustee's or fiduciary's custody; the investment, reinvestment, and disposition of funds or property; the review and approval of transactions between trust and/or fiduciary accounts, and of acceptable fixed income and equity investments, including the investment outlets. Further, it reviews trust and other fiduciary accounts at least once yearly to determine the advisability of retaining or disposing of the trust or fiduciary assets, and/or whether the account is being managed in accordance with the instrument creating the trust or other fiduciary relationship. It reports to the Board any changes in regulations, market conditions, and other factors that may affect the trust business.

The Bank is generally in compliance with adopted leading practices on good corporate governance. Taking into account global best practices, the Bank constantly updates its tools for monitoring the performance of the Board and individual Board members, and the process by which it determines whether a director conducts fair business transactions, devotes necessary time and attention to discharge his duties, acts judiciously, exercises independent judgment, has working legal knowledge affecting the Bank, observes confidentiality and ensures soundness, effectiveness and adequacy of the Bank's risk management system and control environment.

The Bank has no knowledge of any instance of non-compliance with its Manual of Corporate Governance by the Board of Directors or its members, nor by the Bank's officers or employees.

The Bank is committed to ensuring that the corporate governance framework supports the equitable treatment of all shareholders, including minority shareholders. All shareholders are entitled to have the opportunity to obtain effective redress for any violation of their rights.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

Exhibits

The exhibits are incorporated by reference as set forth in the index attached hereto.

Reports on SEC Form 17-C

The following reports on SEC Form 17-C were filed during the last six (6) months period covered by this report:

Date Filed	Item
July 2, 2013	Certification of Independent Director
July 16, 2013	Approval of the Financial Supervisory Commission of Taiwan
October 9, 2013	Use of the new English Corporate Name
October 30, 2013	Resignation of Philip Ong from the Board
October 30, 2013	Press Release: Chinatrust (Philippines) to Adapt New Bank Name and CTBC BANK Deposits Up End 3rd Qtr.
November 11, 2013	Bank's Unveiling Event Photo Release
December 16, 2013	Appointment of Frank Shih as Director

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Taguig ____day of APR 1 1 2014 2014.

By:

RAYMUNDO MARTIN M. ESCALONA, EVP *
Officer in Charge
TIN: 128-421-032

ANDRE P. PAYAWAL, FVP
Principal Financial Officer,
Comptroller & Principal Accounting Officer
TIN: 150-031-779

ATTY. MARITESS PARILLA-ELBINIAS, VP
Legal Department Head and
Assistant Corporate Secretary
TIN: 135-899-542

The Bank has no Principal Operating Officer.

SUBSCRIBED AND SWORN to before me this ____ day of APR 1 1 2014 2014 affiants exhibiting to me their SSS Nos., as follows:

NAMES	SSS I.D. NO.
Raymundo Martin M. Escalona	SSS ID No. 03-7035177-7
Andre P. Payawal	SSS ID No. 03-4772791-0
Atty. Maritess P. Elbinias	SSS ID No. 03-8177518-0

Doc. No. 500;
Page No. 101;
Book No. I;
Series of 2014.

ATTY. MARY ANGELINE S. TOL
NOTARY PUBLIC FOR TAGUIG CITY
UNTIL DECEMBER 31, 2015
16/F Fort Legend Towers, Third Ave. corner 31st St.
Bonifacio Global City, Taguig City
APPT. NO. 86 / ROLL NO. 51630
PTR NO. A-2016586/01-02-14/TAGUIG CITY
IBP NO. 947782/12-26-13/CAVITE

** The President and CEO, Mr. Mark Chen is currently out of the country. In his absence, Mr. Raymundo Martin M. Escalona was designated as Officer in Charge.*

CTBC BANK
中國信託銀行

Republic of the Philippines)
Taguig City) S.S.

SECRETARY'S CERTIFICATE

I, **MARITESS PARILLA-ELBINIAS**, of legal age, Filipino, with business address at the 16th Floor, Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City, after being duly sworn in accordance with law, hereby state and certify that:

1. I am the duly appointed Assistant Corporate Secretary of **CTBC BANK (PHILIPPINES) CORP.** (the "Bank"), a corporation duly organized and existing under and by virtue of the laws of the Philippines, with offices at Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City;

2. Based on my personal knowledge, the Bank's President and CEO is currently out of the country.

3. Raymundo Martin M. Escalona, Executive Vice President has been designated by the President and CEO as the Officer in Charge. Mr. Escalona is authorized to sign the Bank's SEC 17-A (2013 Annual Report).

IN WITNESS WHEREOF, I have hereunto set my hand this APR 1 1 2014 at Taguig City.

ATTY. MARITESS PARILLA-ELBINIAS, VP
Legal Head and Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 1 1 2014, affiant exhibiting to me her SSS I.D. No. 03-8177518-0.

Doc. No. 499
Page No. 101
Book No. I
Series of 2014.

ATTY. MARY ANGELINE S. TOL
NOTARY PUBLIC FOR TAGUIG CITY
UNTIL DECEMBER 31, 2015
16/F, Fort Legend Towers, Third Ave. corner 31st St.
Bonifacio Global City, Taguig City
APPT. NO. 86 / ROLL NO. 51630
PTR NO. A-2016586/01-02-14/TAGUIG CITY
IBP NO. 947782/12-26-13/CAVITE

EXHIBITS AND ANNEXES

1. **STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

2. **AUDITED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2013 and 2012**

CTBC BANK
中國信託銀行

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

R.G. Manabat & Co., the independent auditor, appointed by the stockholders for the period December 31, 2013 and 2012, respectively, has examined the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

JACK LEE
Chairman
Board of Directors

MARK CHEN
President
Chief Executive Officer

ANDRE P. PAYAWAL
First Vice President
Chief Financial Officer

Signed this 25th day of March, 2014

CTBC BANK (PHILIPPINES) CORP.
16th to 19th Floors, Fort Legend Towers, 31st Street corner 3rd Avenue, Bonifacio Global City, Taguig City 1634
+63 (2) 717-5287 / 988-9287 www.ctbcbank.com.ph

MAR 25 2014

SUBSCRIBED AND SWORN to before me ________________ affiants exhibiting to me their Government Issued I.D., as follows:

NAMES	**PASSPORT//DRIVER'S LICENSE/TIN NO.**	**DATE/PLACE OF ISSUE**
Jack Lee	Passport # 301759716 TIN# 433-750-023	June 29, 2010 / Taiwan
Mark Chen	Passport # 303036105 TIN# 263-636-275	June 13, 2011 / Taiwan
Andre P. Payawal	DL# N07-75-019086 TIN# 150-031-779	Valid until 4.24.14

Doc. No. 416
Page No. 85
Book No. 309
Series of 2014.

ATTY. VIRGILIO R. BATALLA
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M-35
UNTIL DECEMBER 31, 2014
ROLL OF ATTORNEY 48348
MCLE COMPLIANCE NO. IV-0016333
IBP NO. 705762 – LIFETIME MEMBER
PTR. NO. 422-5506 JAN 2, 2014
EXECUTIVE BLDG. CENTER
MAKATI AVE., COR., JUPITER

CTBC BANK (PHILIPPINES) CORPORATION
[Formerly Chinatrust (Philippines) Commercial Bank Corporation]

FINANCIAL STATEMENTS
December 31, 2013 and 2012
(With Comparative Figures for January 1, 2012)

REPORT OF INDEPENDENT AUDITORS

The Stockholders and the Board of Directors
CTBC Bank (Philippines) Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of CTBC Bank (Philippines) Corporation *[formerly Chinatrust (Philippines) Commercial Bank Corporation]* (the "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 notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the Philippines for banks (Philippine GAAP for banks) as described in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of these financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

KPMG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of CTBC Bank (Philippines) Corporation as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the Philippines for banks as described in Note 2 to the financial statements.

Other Matter

The financial statements of the Bank for the year ended December 31, 2011 were audited by other auditors who expressed an unqualified opinion on those statements on February 23, 2012. As part of our audit of the 2013 financial statements, we also audited the adjustments described in Note 29 that were applied to the Statement of Financial Position as at December 31, 2011 to come up with the Statement of Financial Position as at January 1, 2012 (presented herein as corresponding figures). In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2011 financial statements of the Bank other than with respect to the adjustments, and accordingly, we do not express an opinion or any other form of assurance on the 2011 financial statements taken as a whole.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Notes 30 and 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 management. 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.

R.G. Manabat & Co.

February 20, 2014
Makati City, Metro Manila

CTBC BANK (PHILIPPINES) CORPORATION
[Formerly Chinatrust (Philippines) Commercial Bank Corporation]
STATEMENTS OF FINANCIAL POSITION

	Note	**December 31, 2013**	December 31, 2012 (As restated - see Note 29)	January 1, 2012 (As restated - see Note 29)
ASSETS				
Cash and Other Cash Items	*13, 17*	**P390,642,013**	P346,343,327	P328,042,939
Due from Bangko Sentral ng Pilipinas	*13, 17*	**5,903,001,639**	4,329,274,097	1,913,242,125
Due from Other Banks	*17, 26*	**1,999,920,727**	456,845,726	4,676,565,861
Interbank Loans Receivable	*17*	**1,399,543,292**	-	2,721,935,658
Financial Assets at Fair Value through Profit or Loss	*7, 17, 27*	**875,377,447**	635,982,502	53,124,220
Available-for-Sale Investments	*7, 17*	**445,651,760**	1,340,223,700	591,884,513
Held-to-Maturity Investments	*7, 17*	**361,137,602**	332,696,411	264,795,279
Loans and Receivables - net	*8, 12, 17, 26*	**16,226,695,202**	13,529,637,156	14,404,318,271
Property and Equipment - net	*9, 17*	**164,648,755**	201,440,215	246,688,777
Investment Properties - net	*10, 17*	**17,580,730**	4,428,001	4,337,633
Deferred Tax Assets - net	*17, 21*	**165,836,949**	186,214,223	282,783,712
Other Assets	*11, 17*	**187,232,169**	223,108,157	263,467,674
		P28,137,268,285	P21,586,193,515	P25,751,186,662
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities	*13, 17*			
Demand		**P4,953,804,229**	P4,306,942,401	P4,685,833,626
Savings		**3,362,047,487**	2,199,744,647	2,339,407,911
Time		**9,104,057,182**	5,493,376,167	10,255,397,512
		17,419,908,898	12,000,063,215	17,280,639,049
Derivative Liabilities	*17, 27*	**1,586,735**	3,713,623	26,169
Bills Payable	*14, 17*	**2,974,465,000**	1,929,350,000	1,096,000,000
Outstanding Acceptances	*17*	**16,575,086**	12,132,312	1,380,960
Manager’s Checks	*17*	**67,208,676**	36,868,551	24,679,175
Accrued Interest, Taxes and Other Expenses	*15, 17*	**344,628,296**	227,059,059	292,800,766
Income Tax Payable	*17, 21*	**4,285,072**	8,934,371	7,895,166
Other Liabilities	*16, 17*	**817,148,905**	908,923,031	984,632,857
		21,645,806,668	15,127,044,162	19,688,054,142

Forward

	Note	**December 31, 2013**	December 31, 2012 (As restated - see Note 29)	January 1, 2012 (As restated - see Note 29)
EQUITY				
Capital Stock	*18*	**P2,479,687,310**	P2,479,687,310	P2,479,687,310
Treasury Stock	*18*	**(15,951,674)**	(15,951,674)	-
Additional Paid-in Capital	*18*	**53,513,675**	53,513,675	53,513,675
Retained Earnings	*18*	**4,071,971,864**	3,880,591,501	3,558,407,412
Statutory Reserve	*23*	**4,981,159**	4,981,159	4,981,159
Cumulative Translation Adjustments		**(1,578,656)**	(8,123,371)	9,004,913
Unrealized Gain (Loss) on Available-for-Sale Investments	*7*	**(37,500,652)**	45,726,351	12,044,730
Net Unrealized Gain (Loss) on Retirement Obligation	*19*	**(63,661,409)**	18,724,402	(54,506,679)
		6,491,461,617	6,459,149,353	6,063,132,520
		P28,137,268,285	P21,586,193,515	P25,751,186,662

See Notes to the Financial Statements.

CTBC BANK (PHILIPPINES) CORPORATION
[Formerly Chinatrust (Philippines) Commercial Bank Corporation]
STATEMENTS OF INCOME

		Years Ended December 31		
	Note	**2013**	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
INTEREST INCOME				
Loans and receivables	*8, 26*	**P1,425,272,322**	P1,478,064,810	P1,521,831,444
Trading and investment securities	*7*	**114,290,463**	136,232,048	160,643,677
Deposits with Bangko Sentral ng Pilipinas and other banks	*26*	**61,844,952**	6,811,797	20,499,241
Interbank loans receivable		**14,806,527**	30,249,686	39,460,228
		1,616,214,264	1,651,358,341	1,742,434,590
INTEREST EXPENSE				
Deposit liabilities	*13*	**143,683,572**	150,298,165	224,806,799
Bills payable and other borrowings	*14, 26*	**13,059,626**	5,765,013	6,013,933
		156,743,198	156,063,178	230,820,732
NET INTEREST INCOME		**1,459,471,066**	1,495,295,163	1,511,613,858
Service fees and commission income	*22*	**198,876,101**	203,396,339	197,521,883
Trading and securities gain - net	*7*	**157,267,866**	265,861,754	315,571,387
Foreign exchange gain (loss) - net	*7*	**90,708,516**	11,408,319	(5,533,094)
Miscellaneous - net	*22*	**104,878,788**	87,070,505	64,206,127
TOTAL OPERATING INCOME		**2,011,202,337**	2,063,032,080	2,083,380,161
Compensation and fringe benefits	*19, 26*	**649,964,447**	615,026,012	589,159,471
Provision for credit losses	*12*	**264,583,750**	192,069,077	222,439,747
Occupancy and other equipment-related costs	*20*	**195,350,279**	192,180,099	187,243,780
Taxes and licenses	*21*	**151,998,874**	128,437,614	131,253,016
Security, messengerial and janitorial expenses		**122,842,790**	117,031,140	123,545,588
Depreciation and amortization	*9, 10*	**78,650,433**	81,374,675	88,578,720
Amortization of computer software costs	*11*	**34,168,039**	33,880,949	27,417,262
Miscellaneous	*22*	**186,656,751**	197,923,335	193,746,505
TOTAL OPERATING EXPENSES		**1,684,215,363**	1,557,922,901	1,563,384,089
INCOME BEFORE INCOME TAX		**326,986,974**	505,109,179	519,996,072
PROVISION FOR INCOME TAX	*21*	**135,606,611**	182,925,090	187,155,689
NET INCOME		**P191,380,363**	P322,184,089	P332,840,383
Basic/Diluted Earnings Per Share	*28*	**P0.77**	P1.30	P1.34

See Notes to the Financial Statements.

CTBC BANK (PHILIPPINES) CORPORATION
[Formerly Chinatrust (Philippines) Commercial Bank Corporation]
STATEMENTS OF COMPREHENSIVE INCOME

			Years Ended December 31	
	Note	**2013**	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
NET INCOME FOR THE YEAR		**P191,380,363**	P322,184,089	P332,840,383
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR				
Items that may not be reclassified to profit or loss				
Unrealized gain (loss) on retirement obligation	*19*	**(82,385,811)**	73,231,081	(54,506,679)
Items that may be reclassified to profit or loss				
Unrealized gain (loss) on available-for-sale investments	*7*	**(83,227,003)**	33,681,621	17,670,681
Cumulative translation adjustments		**6,544,715**	(17,128,284)	24,034,390
		(76,682,288)	16,553,337	41,705,071
		(159,068,099)	89,784,418	(12,801,608)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P32,312,264**	P411,968,507	P320,038,775

See Notes to the Financial Statements.

CTBC BANK (PHILIPPINES) CORPORATION
[Formerly Chinatrust (Philippines) Commercial Bank Corporation]
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (see Note 18)	Treasury Stock (see Note 18)	Additional Paid-in Capital (see Note 18)	Retained Earnings (As restated - see Note 18 and 29)	Statutory Reserve (see Note 23)	Cumulative Translation Adjustments	Net Unrealized Gain (Loss) on Available-for-Sale Investments (As restated - see Notes 7 and 29)	Net Unrealized Gain (Loss) on Retirement Obligation (As restated - see Notes 19 and 29)	Total
Balance at January 1, 2013, as restated	**P2,479,687,310**	**(P15,951,674)**	**P53,513,675**	**P3,880,591,501**	**P4,981,159**	**(P8,123,371)**	**P45,726,351**	**P18,724,402**	**P6,459,149,353**
Net income for the year	-	-	-	**191,380,363**	-	-	-	-	**191,380,363**
Other comprehensive income									
Items that may not be reclassified to profit or loss									
- Unrealized gain (loss) on retirement obligation	-	-	-	-	-	-	-	**(82,385,811)**	**(82,385,811)**
Items that may be reclassified to profit or loss									
- Unrealized gain (loss) on available-for-sale investment	-	-	-	-	-	-	**(83,227,003)**	-	**(83,227,003)**
Cumulative translation adjustment	-	-	-	-	-	**6,544,715**	-	-	**6,544,715**
Trust reserves	-	-	-	-	-	-	-	-	-
Effect of restatement	-	-	-	-	-	-	-	-	-
Balance at December 31, 2013	**P2,479,687,310**	**(P15,951,674)**	**P53,513,675**	**P4,071,971,864**	**P4,981,159**	**(P1,578,656)**	**(P37,500,652)**	**(P63,661,409)**	**P6,491,461,617**
Balance at January 1, 2012, as restated	P2,479,687,310	P -	P53,513,675	P3,558,407,412	P4,981,159	P9,004,913	P12,044,730	(P54,506,679)	P6,063,132,520
Net income for the year	-	-	-	319,437,125	-	-	-	-	319,437,125
Other comprehensive income									
Items that may not be reclassified to profit or loss									
- Unrealized gain (loss) on retirement obligation	-	-	-	-	-	-	-	-	-
Items that may be reclassified to profit or loss									
- Unrealized gain (loss) on available-for-sale investment	-	-	-	-	-	-	33,496,671	-	33,496,671
- Cumulative translation adjustment	-	-	-	-	-	(17,128,284)	-	-	(17,128,284)
Treasury share acquisition	-	(15,951,674)	-	-	-	-	-	-	(15,951,674)
Trust reserves	-	-	-	-	-	-	-	-	-
Effect of restatement	-	-	-	2,746,964	-	-	184,950	73,231,081	76,162,995
Balance at December 31, 2012, as restated	P2,479,687,310	(P15,951,674)	P53,513,675	P3,880,591,501	P4,981,159	(P8,123,371)	P45,726,351	P18,724,402	P6,459,149,353
Balance at January 1, 2011, as previously stated	P2,479,687,310	P -	P53,513,675	P3,226,129,591	P4,418,597	(P15,029,477)	(P5,625,951)	P -	P5,743,093,745
Net income for the year	-	-	-	326,809,758	-	-	-	-	326,809,758
Other comprehensive income									
Items that may not be reclassified to profit or loss									
- Unrealized gain (loss) on retirement obligation	-	-	-	-	-	-	-	-	-
Items that may be reclassified to profit or loss									
- Unrealized gain (loss) on available-for-sale investment	-	-	-	-	-	-	17,855,631	-	17,855,631
- Cumulative translation adjustment	-	-	-	-	-	24,034,390	-	-	24,034,390
Trust reserves	-	-	-	(562,562)	562,562	-	-	-	-
Effect of restatement	-	-	-	6,030,625	-	-	(184,950)	(54,506,679)	(48,661,004)
Balance at December 31, 2011, as restated	P2,479,687,310	P -	P53,513,675	P3,558,407,412	P4,981,159	P9,004,913	P12,044,730	(P54,506,679)	P6,063,132,520

See Notes to the Financial Statements.

CTBC BANK (PHILIPPINES) CORPORATION
[Formerly Chinatrust (Philippines) Commercial Bank Corporation]
STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	**2013**	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P326,986,974**	P505,109,179	P519,996,072
Adjustments for:				
Mark-to-market loss (gain) on trading securities	*7*	**(4,537,563)**	1,933,339	(3,847,416)
Provision for credit losses	*12*	**264,583,750**	192,069,077	222,439,747
Provision (reversal) of allowance on Investment property	*10*	**(110,368)**	110,368	-
Foreign exchange revaluation on trading and investment securities		**(97,774,969)**	32,307,518	23,849,439
Foreign exchange revaluation on bills payable		**157,215,000**	(69,750,000)	-
Amortization of net discount on available-for-sale and held-to-maturity investments		**89,827,245**	(83,260,464)	(12,371,645)
Amortization of deferred charges		**649,170**	811,167	849,545
Amortization of computer software costs	*11*	**34,168,039**	33,880,949	27,417,262
Depreciation and amortization	*9, 10*	**78,650,433**	81,374,675	88,578,720
Contribution to the retirement plan	*19*	**(29,649,150)**	(18,228,486)	(10,048,876)
Retirement expense charged to profit or loss	*19*	**13,915,726**	18,134,229	11,782,858
Reclassification on software costs	*11*	**(105,374)**	(9,369)	(755,433)
Loss (gain) on disposal of property, plant and equipment		**189,737**	(387,333)	(393,965)
Dividend income	*22*	**(631,000)**	(2,241,223)	(632,800)
Changes in operating assets and liabilities:				
Decrease (increase) in amounts of:				
Financial assets at fair value through profit or loss		**(234,857,382)**	(584,791,621)	626,202,466
Loans and receivables		**(2,960,379,796)**	678,333,408	1,486,710,414
Other assets		**11,246,792**	125,866,793	(65,769,224)
Increase (decrease) in amounts of:				
Deposit liabilities		**5,419,845,683**	(5,280,575,834)	372,892,734
Outstanding acceptances		**4,442,774**	10,751,352	(15,866,382)
Manager’s checks		**30,340,125**	12,189,376	(7,383,789)
Accrued interest, taxes and other expenses		**50,916,850**	(65,741,707)	(32,184,592)
Derivative liabilities		**(2,126,888)**	3,687,454	(4,570,458)
Other liabilities		**(91,774,126)**	(75,709,826)	113,247,104
Net cash generated from (used in) operations		**3,061,031,682**	(4,484,136,979)	3,340,141,781
Income taxes paid		**(119,878,636)**	(85,316,396)	(104,661,801)
Net cash provided by (used in) operating activities		**2,941,153,046**	(4,569,453,375)	3,235,479,980

Forward

	Note	2013	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
			Years Ended December 31	
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Available-for-sale investments		**(P1,162,601,626)**	(P2,752,407,708)	(P1,578,856,017)
Property and equipment	*9*	**(45,579,059)**	(44,992,196)	(91,639,796)
Held-to-maturity investments		**(22,683,159)**	(258,953,647)	(67,038,450)
Investment properties	*10*	**(13,263,500)**	(328,110)	(9,448,000)
Computer software costs	*11*	**(10,082,639)**	(46,864,685)	(50,455,175)
Proceeds from disposals of:				
Available-for-sale investments		**1,981,593,014**	2,081,611,875	2,392,506,626
Held-to-maturity investments		**-**	97,147,717	-
Property and equipment	*9*	**3,751,489**	9,380,790	6,653,753
Investment properties	*10*	**-**	-	7,862,895
Proceeds from maturity of held-to-maturity investments		**1,087,955**	83,867,727	53,232,988
Dividends received	*22*	**(631,000)**	6,519,853	632,800
Net cash provided by investing activities		**731,591,475**	(825,018,384)	663,451,624
CASH FLOWS FROM FINANCING ACTIVITIES				
Purchase of treasury shares	*18*	**-**	(15,951,674)	-
Availments of bills payable		**92,779,390,000**	56,207,462,509	28,219,126,089
Settlement of bills payable		**(91,891,490,000)**	(55,304,362,509)	(27,693,046,089)
Net cash provided by (used in) financing activities		**887,900,000**	887,148,326	526,080,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**4,560,644,521**	(4,507,323,433)	4,425,011,604
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items		**346,343,327**	328,042,939	334,084,617
Due from Bangko Sentral ng Pilipinas		**4,329,274,097**	1,913,242,125	4,262,903,803
Due from other banks		**456,845,726**	4,676,565,861	615,146,557
Interbank loans receivable		**-**	2,721,935,658	2,640,002
		5,132,463,150	9,639,786,583	5,214,774,979
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items		**390,642,013**	346,343,327	328,042,939
Due from Bangko Sentral ng Pilipinas		**5,903,001,639**	4,329,274,097	1,913,242,125
Due from other banks		**1,999,920,727**	456,845,726	4,676,565,861
Interbank loans receivable		**1,399,543,292**	-	2,721,935,658
		P9,693,107,671	P5,132,463,150	P9,639,786,583
OPERATIONAL CASH FLOWS FROM INTEREST				
Interest received		**P1,621,436,006**	P1,650,761,881	P1,833,267,962
Interest paid		**175,290,500**	(187,236,165)	(278,767,520)
		P1,796,726,506	P1,463,525,716	P1,554,500,442

See Notes to the Financial Statements.

CTBC BANK (PHILIPPINES) CORPORATION
[Formerly Chinatrust (Philippines) Commercial Bank Corporation]

NOTES TO THE FINANCIAL STATEMENTS
(With Comparative Figures for 2012 and 2011)

1. Organization

CTBC Bank (Philippines) Corporation, formerly Chinatrust (Philippines) Commercial Bank Corporation (the "Bank"), is a 99.41%-owned entity of CTBC Bank Co. Ltd., formerly Chinatrust Commercial Bank Ltd. ("Parent Bank"), a Taiwan-based commercial bank. The Bank was incorporated as a domestic commercial bank on September 7, 1995 under the name of Access Banking Corporation and started business operations on September 26, 1995. It was renamed as Chinatrust (Philippines) Commercial Bank Corporation in January 1996. On October 30, 2013, the Bank changed its corporate name to CTBC Bank (Philippines) Corporation. The Bank was organized to provide commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, and trust services. In addition, the Bank is licensed to engage in regular financial derivatives as a means of reducing and managing the Bank's and its customers' foreign exchange exposure. The ultimate parent of the Bank is CTBC Financial Holding Co., Limited (formerly Chinatrust Financial Holding Co., Ltd.), which was incorporated in Taiwan.

The Bank's principal place of business is located at Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City.

The Bank's common shares were listed in the Philippines Stock Exchange (PSE) in June 1999. On October 7, 2011, the Board of Directors (BOD) authorized the Bank to file a petition for voluntary delisting with the PSE and to purchase the outstanding shares through a tender offer in accordance with the rules of the PSE and Philippine Securities and Exchange Commission (SEC). On December 15, 2011, the Bank obtained approval for the delisting and share buyback through a special stockholders' meeting as required by the Bank's By-Laws. On December 19, 2011, the Bank received the approval of the Monetary Board for the delisting and share buyback. As of January 27, 2012, common shares held by minority stockholders amounting to P12.7 million were tendered to and reacquired by the Bank. On February 8, 2012, the PSE approved the Bank's petition for voluntary delisting. Official delisting of the Bank's shares from the Trading Board became effective on February 24, 2012.

2. Basis of Preparation and Statement of Compliance

Statement of Compliance

The accompanying financial statements of the Bank have been prepared in compliance with the accounting principles generally accepted in the Philippines for banks (the "Philippine GAAP for banks"). As discussed in Note 7, the Bank participated in a bond exchange transaction under the liability management program - buyback invitation of the Philippine Government in 2012. The Philippine SEC granted an exemptive relief from the existing tainting rule on held-to-maturity (HTM) investment under Philippine Accounting Standard (PAS 39), *Financial Instruments: Recognition and Measurement* while the Bangko Sentral ng Pilipinas (BSP) also provided the same exemption for prudential reporting to the participants. Following this exemption, the basis of preparation of the financial statements of the availing entities shall not be Philippine

Financial Reporting Standards (PFRSs) but should be the prescribed financial reporting framework for entities which are given relief from certain requirements of the full PFRSs. Except for the aforementioned exemption, the financial statements of the Bank have been prepared in compliance with the PFRSs.

The 2011 financial statements have been prepared in full compliance with PFRSs.

Basis of Measurement
The financial statements have been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments which are measured at fair value.

The accompanying financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and the Foreign Currency Deposit Unit (FCDU). The financial statements are the combined financial information of these units after eliminating inter-unit accounts.

Functional and Presentation Currency
These financial statements are presented in Philippine peso, the functional and presentation currency of the Bank. The functional currency of RBU and FCDU is 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 (see Note 3 on foreign currency translation). All financial information presented in Philippine peso has been rounded off to the nearest peso, except otherwise indicated.

Approval of Issuance of Financial Statements
The financial statements of the Bank were authorized for issue by the BOD of the Bank on February 20, 2014.

3. Summary of Significant Accounting Policies

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

Certain comparative amounts have been restated to conform to the current year's presentation (see Note 29).

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Bank has adopted the following amendments to standards and interpretations starting January 1, 2013 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards and interpretations did not have any significant impact on the Bank's financial statements.

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

  - require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss;

- do not change the existing option to present profit or loss and other comprehensive income in two statements; and
- change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles.

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

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

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

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

▪ PFRS 13, *Fair Value Measurement*

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

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

The amended PAS 19 includes the following requirements:

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

The Bank has applied the transitional provisions of the amended standard on a retrospective basis and provided extensive disclosures. The nature and effects of the changes are discussed in Note 29.

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

  - PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Repeated Application of PFRS 1*. The amendment clarifies the applicability of PFRS 1 to an entity that has applied PFRSs in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with PFRSs. If such an entity presents its financial statements in accordance with PFRSs again, then it is now allowed, rather than required, to apply PFRS 1. A repeated adopter that elects not to apply PFRS 1 in the above situation has to apply PFRSs retrospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, as if it had never stopped applying PFRSs. Such an entity should also disclose the reason for electing to apply PFRSs on a continuous basis. Irrespective of whether the repeated adopter applies PFRS 1, it is required to disclose the reasons why it stopped applying PFRSs and is resuming the application of PFRSs. The IASB has also clarified that the above option is available regardless of whether PFRS 1 existed at the time the entity previously applied PFRSs. For example, the above option is available to a repeated adopter that previously applied Philippine Interpretation SIC-8, *First-time Application of PASs as the Primary Basis of Accounting*.

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

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

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

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

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

The amendment explains that the requirements for the presentation of notes related to additional comparative information and those related to the opening statement of financial statements are different, because the underlying objectives are different.

Consequential amendments have been made to PFRS 1 and PAS 34, *Interim Financial Reporting.*

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

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

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

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

Foreign Currency Transactions and Translation

Transactions in foreign currencies are initially recorded at the functional rate of exchange at the date of transaction.

Foreign currency-denominated monetary assets and liabilities in the RBU and FCDU are translated into their respective functional currencies based on the Philippine Dealing System (PDS) closing rate prevailing as at the reporting date and PDS closing rate prevailing on the date of the transaction for income and expenses. Foreign exchange differences arising from foreign currency transactions and restatements of foreign currency-denominated assets and liabilities are credited to or charged against the statements of income in the period in which the rates change.

Foreign currency-denominated non-monetary items that are measured at historical cost are translated using the exchange rate at the transaction date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU

As at the reporting date, the assets and liabilities of the FCDU of the Bank are translated from its functional currency into its equivalent in Philippine peso, the presentation currency, at PDS closing rate prevailing at the reporting date. The income and expenses are translated using the exchange rates as at the date of the transaction. Foreign exchange differences arising from translation of the FCDU balances to the presentation currency are taken directly to the statements of comprehensive income under "Cumulative translation adjustments." Upon remittance of the FCDU's net income to the RBU, the deferred cumulative translation adjustments recognized in the statements of comprehensive income is recognized in profit or loss.

Financial Instruments

Date of Recognition

Effective January 1, 2013, the Bank changed its accounting policy on regular way purchases and sales of financial assets and liabilities from settlement date to trade date basis of accounting as allowed under PAS 39, *Financial Instruments: Recognition and Measurement*.

Purchases or sales of financial assets and liabilities at FVPL and AFS investments, which require delivery of assets within the time frame established by regulation or convention in the market place are recognized on trade date (i.e. the date that the Bank commits to purchase or sell the financial asset or issue or repurchase the financial liability). Deposits, amounts due to and from BSP and other banks and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

In accordance with PAS 8, the effect of the change in accounting policy was applied retrospectively to January 1, 2012, the earliest date practicable. Comparatives have been restated and effect of restatement for the period then presented are summarized in Note 29.

Initial Recognition of Financial Instruments

All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement includes transaction costs. The Bank classifies its financial assets in the following categories: financial assets at FVPL, AFS investments, HTM investments, and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or the liabilities were incurred and whether they are quoted in an active market, and for HTM investments, the ability and intention to hold the investment until maturity. Management determines the category of its financial instruments at initial recognition and where allowed and appropriate, re-evaluates such designation at every reporting date.

Reclassification of Financial Assets

A financial asset at FVPL is reclassified out of the FPVL category when the following conditions are met:

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

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

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

Reclassification is at the election of management and is determined on an instrument per instrument basis. The Bank does not reclassify any financial instrument into the FVPL category after initial recognition.

Determination of Fair Value
'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 for financial instruments traded in active markets at the reporting date is based on their quoted market prices or dealer price quotations, without any deduction for transaction costs. When the current market price is not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not quoted in an active market, the fair value is determined by using appropriate valuation techniques that maximize use of observable inputs and minimize use of unobservable inputs. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

'Day 1' Difference
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) under "Trading and securities gain - net" in the statements of income in the period when the asset is acquired or liability is incurred, unless it qualifies for recognition as some other type of asset or liability. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statements 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.

Financial Assets and Financial Liabilities at FVPL
This category includes financial assets and liabilities held-for-trading and derivative financial instruments recorded at FVPL.

a. *Financial Assets and Financial Liabilities Held-for-Trading*
Financial assets and financial liabilities held-for-trading are recorded in the statement of financial position at fair value. Changes in fair value relating to the held-for-trading positions are recognized in "Trading and securities gain - net". Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in "Miscellaneous" when the right to receive payment has been established.

Included in this classification are debt securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

b. Derivative Financial Instruments Classified at FVPL
The Bank is a counterparty to derivative contracts, such as foreign exchange contracts and cross currency swaps. These derivatives are entered into as a service to customers, as a means of reducing or managing their respective foreign exchange exposures and for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting cash flow hedges and hedges in net investment in foreign operation) are taken directly to "Trading and securities gain - net" in the statements of income. Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative.

The method of recognizing fair value gains and losses depends on whether derivatives are held-for-trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. When derivatives are designated as hedges, the Bank classifies them as either: (a) hedges of the change in fair value of recognized assets or liabilities or firm commitments (‘fair value hedges’); (b) hedges of the variability in highly probable future cash flows attributable to a recognized asset or liability or a forecast transaction (‘cash flow hedges’); or (c) a hedge of a net investment in a foreign operation (‘net investment hedges’). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

In 2013, 2012 and 2011, the Bank did not apply hedge accounting treatment for any of its derivative transactions.

AFS Investments

AFS investments are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, money market papers and other debt instruments.

After initial measurement, AFS investments are subsequently measured at fair value. Unrealized gains and losses arising from the fair valuation of AFS investments are recognized, net of tax, under “Net unrealized gain (loss) on available-for-sale investments” in the statements of comprehensive income. For AFS debt securities, impact of translation on foreign currency-denominated securities is reported in the statements of income. For AFS equity securities considered as non-monetary items, impact of translation on foreign currency-denominated securities is included in unrealized gains and losses taken in other comprehensive income.

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.

When the securities are sold or disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as “Trading and securities gain - net” in the statements of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS debt instruments are reported as “Interest income on trading and investment securities” using the effective interest rate (EIR) method. Dividends earned from AFS equity investments are recognized in “Miscellaneous income” in the statements of income when the right of payment has been established. The losses arising from impairment of AFS investments are recognized as “Provisions for credit losses” in the statements 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. Where the Bank sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments and the Bank will be precluded from using the HTM investments account for the current period and for the next two succeeding periods from tainting date. After initial measurement, HTM investments are subsequently measured at amortized cost using the EIR method, less impairment losses. 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 on trading and investment securities" in the statements of income. Gains and losses from amortization, impairment or derecognition are recognized in the statements of income. The losses arising from impairment of such investments are recognized in the statements of income under "Provision for credit losses." The effects of translation of foreign currency-denominated HTM investments are recognized in the statements of income.

On October 8, 2012, the Philippine SEC granted to affected holders of identified eligible US Dollar-denominated Republic of the Philippines ("ROP") bonds who: (a) will tender more than an insignificant amount of such ROP bonds pursuant to Bureau of Treasury (BTr)'s Liability Management Program - Buyback Invitation ("BTr Buyback Invitation"), and (b) currently classify such ROP bonds as HTM investments in accordance with PAS 39 an exemption from the tainting rules of PAS 39. For this purpose, the term "insignificant" shall mean that the amount of ROP bonds held by affected holders classified as HTM Investment is less than 5% of the total HTM Investments of the affected holder.

The exemption from PAS 39 tainting rules is subject to the following conditions:

1. The holders of identified eligible ROP bonds availing the above exemptive relief from PAS 39 tainting rules should: (i) use all, or substantially all, of the proceeds received in the BTr Buyback Invitation to purchase new identified eligible replacement ROP bonds ("the replacement ROP bonds"), and (ii) purchase the replacement ROP bonds within 30 business days from the date of receipt of cash proceeds in the BTr Buyback Invitation;

2. Participating entities should submit within ten (10) days from settlement of purchase of new identified eligible ROP bonds a disclosure to the Philippine SEC the: (i) date(s) of their tender for cash and their purchase of the replacement ROP bonds, (ii) the principal amounts of the ROP bonds tendered and of the newly-purchased replacement ROP bonds, and (iii) the amounts of the participating entity's total HTM investments portfolio before and after participating in the BTr Buyback Invitation;

3. Participating entities should not recognize Day 1 difference from the BTr Buyback Invitation. Any gains or losses must be amortized over the term of the newly-purchased replacement ROP bonds;

4. The newly-purchased replacement ROP bonds should be classified and recorded as HTM investments;

5. The basis of the preparation of the financial statements should not be PFRSs. It should be the prescribed financial reporting framework for entities that are given relief from certain requirements of the full PFRSs. This basis of financial reporting should be adopted by the participating entity until such time that the ground for its coverage under the PAS 39 tainting rule is no longer present; and

6. Appropriate clearance shall be obtained from the Bangko Sentral ng Pilipinas (BSP), as the primary regulators of the affected banks.

The Department of Finance of the Philippines has obtained clearance from BSP required in item (6) above, and participating banks need not obtain individual clearance from the BSP for the above-described BTr Buyback Invitation.

Failure to comply with the above-stated conditions will render the transactions under the BTr Buyback Invitation as not exempted from the PAS 39 tainting rule and will therefore trigger the consequences attached to the PAS 39 tainting rule.

On November 8, 2012, the BTr launched a Buyback Invitation covering certain ROP bonds held by the Bank as HTM investments. The Bank has tendered and participated with the BTr Buyback Invitation and has complied with the above-stated conditions for the purpose of availing the exemptive relief from PAS 39 tainting rule (see Note 7).

Loans and Receivables
The Bank's loans and receivables include Due from BSP, Due from other banks, Interbank loans receivable and Loans and receivables. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL or designated as AFS investments.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for credit losses. 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 on loans and receivables" in the statements of income. The losses arising from impairment of loans and receivables are recognized in "Provision for credit losses" in the statements of income.

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

Conversely, securities purchased under agreements to resell at a specified future date ("reverse repos") are not recognized on the statements of financial position. The corresponding cash paid, including accrued interest, is considered as a receivable from 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 EIR method.

Other Financial Liabilities
The Bank's other financial liabilities include deposit liabilities, bills payable, outstanding acceptances, manager's checks, accrued interest, taxes and other expenses, and other liabilities, except for liabilities relating to taxes and other non-financial liabilities (i.e. retirement liability).

Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities, 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 own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, financial liabilities not qualified and not designated as FVPL are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Derecognition of Financial Instruments

Financial Asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

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

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 liability from the same lender on substantially different terms (or the terms of an existing liability are substantially modified), the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference is recognized in the statements of income.

Offsetting

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

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

Impairment of Financial Assets

The Bank assesses at each reporting date whether there is an objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

AFS Investments

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

In case of equity investments classified as AFS investments, objective evidence would include a significant or prolonged decline in the fair value of the investments below their cost. The determination of what is significant and prolonged is subject to judgment. When there is an 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 statements of income, is removed from equity and recognized in the statements of income. Impairment losses on equity investments are not reversed through the statements of income. Increases in fair value after impairment are recognized directly in the statements of comprehensive income.

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

Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collaterals, whether or not foreclosure is probable.

Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statements of income. If, in the subsequent year, the amount of the estimated 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. Financial assets at amortized cost, 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 a future write-off is later recovered, any amounts formerly charged are credited to the "Provision for credit losses" account in the statements of income. Interest income on amortization continues to be recognized based on the original EIR of the financial asset.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the assets are grouped on the basis of similar credit risk characteristics and are collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for the group of financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated based on historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period 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 period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any difference between loss estimates and actual loss experience.

Financial Assets Carried at Cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Restructured Loans
These involve extending the payment arrangements and agreement on new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows discounted at the original EIR, is recognized in "Provision for credit losses" in the statements of income.

Debt Issue Cost
Issuance, underwriting and other related costs incurred in connection with the issuance of debt instruments are deferred and amortized over the terms of the instruments using the EIR method. Unamortized debt issuance cost is included in the related carrying value of the debt instruments in the statements of financial position.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP, and due from other banks and Interbank loans receivable 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.

Property and Equipment
Depreciable properties includes furniture, fixtures and equipment, leasehold rights and improvements, bank premises, computer and transportation equipment are stated at cost less accumulated depreciation and amortization and accumulated impairment loss, if any. The initial costs of property and equipment consists of 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. Such cost includes the cost of replacing part of the equipment when the cost is incurred and if the recognition criteria are met, but excludes repairs and maintenance cost. 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 property and equipment.

Depreciation and amortization is calculated on the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the term of the lease and the estimated useful lives of the improvements.

The range of estimated useful lives of the depreciable assets follows:

	Number of Years
Bank premises	30
Transportation equipment	5
Furniture, fixtures and equipment	5
Computer equipment	3
Leasehold rights and improvements	3 - 5 or the terms of the lease, whichever is shorter

The depreciation and amortization method and useful life are reviewed periodically to ensure that the method and the period of depreciation and amortization are consistent with the expected pattern of economic benefits from 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. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statements of income in the reporting period 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 the asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under "Investment properties" from foreclosure date. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment loss, if any.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the period in which the costs are incurred.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation or commencement of an operating lease to another party. Transfers are made from investment properties when there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Depreciation is calculated on a straight-line basis over the estimated remaining useful life from the time of acquisition of the investment properties. The estimated useful lives of the Bank's investment properties range from 10 to 40 years. The period and method of depreciation are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statements of income in the year of retirement or disposal.

Computer Software Costs

Computer software costs (included under "Other assets" in the statements of financial position) are costs incurred relative to the development of the Bank's software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Costs are amortized on a straight-line basis over five to eight years and are included under "Amortization of computer software costs" in the statements of income.

Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Impairment of Nonfinancial Assets

Property and Equipment, Investment Properties, and Computer Software Costs

At each reporting date, the Bank assesses whether there is any indication that its property and equipment, investment properties and computer software costs is impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount. Recoverable amount is the higher of a non-financial asset's fair value less costs to sell and its value in use and is determined for an individual non-financial asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of a non-financial asset exceeds its recoverable amount, the non-financial asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged to profit or loss in the year in which it arises. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of income. After such a reversal, any depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in "Other liabilities" in the statements of financial position at fair value. Subsequent to initial recognition, the Bank's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization of the fee recognized over the term of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statements of income in "Provision for credit losses." Any financial guarantee liability remaining is recognized in the statements of income in "Service fees and commission income," when the guarantee is discharged, cancelled or expires.

Revenue Recognition

Revenue is recognized to the extent that it is probable that 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 financial assets at FVPL and 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. The calculation takes into account all contractual terms of the financial instrument (i.e., prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as interest income in the statements of income.

When the recorded value of a financial asset or a group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service Fees and Commission Income
The Bank earns fee and commission income from the diverse range of services it provides to its customers. Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance, such as corporate finance fees, and loan syndication fees are recognized in the statements of income as the related services are performed. Service charges and penalties relating to loan receivable and deposit transactions are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

Dividends
Dividend income on AFS equity investments is recognized when the Bank's right to receive payment is established.

Trading and Securities Gain - net
Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities at FVPL and realized gains or losses on disposals of financial instruments at FVPL and AFS investments.

Other Income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized when the risks and rewards of ownership of the property are transferred, the amount of revenue can be estimated reliably and the collectability is reasonably assured.

Expense Recognition
Expenses are recognized when it is probable that decrease in future economic benefits related to decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably.

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

Retirement Benefits

The Bank's personnel are covered by a funded noncontributory defined benefit retirement plan.

The Bank's net obligation in respect of the defined benefit plans is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

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

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

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

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and where it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Income Taxes

Income tax comprises current and deferred tax. Income tax is determined in accordance with Philippine tax law. Income tax is recognized in the statements of income, except to the extent that it relates to items recognized directly in equity. Tax on these items is recognized in the statements of comprehensive income.

Current Income Tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates and laws that have been enacted or substantively enacted at the statements of financial position date, together with adjustments to tax payable in respect of prior years.

Deferred Taxes
Deferred tax is provided using the balance sheet liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all of part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting 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 reporting 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 deferred taxes related to the same taxable entity and the same taxation authority.

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to “Additional Paid-in Capital” account. Direct costs incurred related to equity issuance such as underwriting, accounting and legal fees, printing costs and taxes are charged to “Additional Paid-in Capital” account. If the additional paid-in capital is not sufficient, the excess is charged against the “Retained Earnings.”

When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of stocks issued.

Retained earnings represent accumulated earnings of the Bank less dividends declared, if any.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any. The Bank does not have any dilutive-potential common stock.

Dividends on Capital Stocks
Dividends on capital stocks are recognized as a liability and deducted from retained earnings when declared and approved by the shareholders of the Bank. Dividends for the year that are approved after the statements of financial position date are dealt with as an event after the reporting date.

Treasury Stock
These are own equity instruments that are reacquired which are recognized at cost and deducted from equity. No gain or loss is recognized in the statements of income on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury stocks are nullified for the Bank and no dividends are allocated to them.

Events After the Reporting Date
Any post year-end event that provides additional information about the Bank's financial position at the reporting date (adjusting event) is reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the notes to the financial statements when material.

Segment Reporting
The Bank's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 24. The Bank's revenue producing assets are only located in the Philippines, thus, geographical segment information is no longer presented.

Operating segment results that are reported to the Bank's Chief Executive Officer, being the chief operating decision maker, include items directly attributable to a segment as well as those that can be allocated in a reasonable manner. Unallocated items comprise mainly of corporate assets, head office expenses, and tax assets and liabilities that cannot be allocated to business segments on a reasonable basis.

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

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013, and have not applied in preparing these financial statements. Except for otherwise indicated, none of these is expected to have a significant effect on the financial statements.

To be Adopted on January 1, 2014

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

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

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

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

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

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

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

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

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

  PFRS 9 (2013) introduces the following amendments:

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

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

  As part of the amendments to IFRS 9 released on November 19, 2013, the IASB has removed the January 1, 2015 effective date of the standard. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized.

However, to help entities in their planning, the IASB on November 21, 2013 tentatively decided that the mandatory effective date of IFRS 9 would be no earlier than annual periods beginning on or after January 1, 2017.

The Bank did not early adopt PFRS 9 as of December 31, 2013, consistent with the Parent Bank's initiative to adopt IFRS 9 on its scheduled mandatory effective date.

PFRS 9 will primarily affect the Bank's financial assets at FVPL that are held for trading and investment securities classified as AFS investments and HTM investments. Upon adoption of PFRS 9, these financial assets will be reclassified according to the Bank's business models in managing its financial statements and contractual cash flow characteristics.

The Bank has decided not to conduct a formal and detailed impact evaluation of PFRS 9 as of December 31, 2013 due to the following:

- the Bank believes that it would be more cost-efficient, beneficial and relevant to conduct a more detailed impact evaluation at least one (1) year before the Bank mandatory adoption of PFRS 9; and,
- the Bank intends to align adoption of PFRS 9 with the Parent Bank's timetable and requirements, including the performance of parallel accounting run and structure of business model requirements.

The Bank will continue to monitor developments and updates to PFRS 9 in relation to the mandatory effective date.

4. Significant Accounting Judgments and Estimates

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

The most significant areas where judgments and estimates have been made are set out below:

Judgments

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 its business in 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.

Determining Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position or disclosed in the notes cannot be derived from active markets, they are determined using a variety of valuation techniques acceptable to the market as alternative valuation approaches 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 estimating fair values. The evaluation includes considerations of liquidity and model inputs such as correlation and volatility.

Determining whether a Financial Instrument is Quoted in an Active Market
The Bank classifies financial instruments by evaluating, among others, whether the financial instrument is quoted or not in an active market. Included in the evaluation on whether a financial instrument is quoted in an active market is the determination of whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions conducted on an arm's length basis.

Classification of HTM Investments
The classification to HTM investments requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, selling a more than insignificant amount close to maturity or fails to meet the conditions for exemption given by the Philippine SEC - 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 in the year where tainting has occurred and for the next two succeeding reporting periods.

As of December 31, 2013, 2012 and 2011, the carrying value of HTM investments amounted to P361.1 million, P332.7 million and P264.8 million, respectively (see Note 7).

Determining Lease Agreements
The Bank has entered into commercial property leases on its investment properties. The Bank has determined based on the evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer the ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out as operating leases.

Determining Functional Currency
PAS 21, *The Effects of Changes in Foreign Exchange Rates,* 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.

Estimates

Fair Value of Derivatives

The fair value of derivatives that are not quoted in active markets is determined using appropriate valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

As of December 31, 2013, 2012 and 2011, derivative assets amounted to P13.2 million, P2.8 million, and P0.6 million respectively. As of December 31, 2013, 2012 and 2011, derivative liabilities amounted to P1.6 million, P3.7 million and P26.2 thousand, respectively (see Notes 7 and 27).

Impairment of AFS Equity Investments

The Bank treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Bank treats 'significant' generally as 20% or more of the original cost of investment and 'prolonged' as greater than twelve (12) months. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factor for unquoted equities.

As of December 31, 2013, 2012 and 2011, the carrying value of AFS equity investments amounted to P12.9 million, P13.0 million and P12.9 million, respectively (see Note 7).

Credit Losses on Loans and Receivables

The Bank reviews its impaired loans and receivables at least semi-annually to assess whether additional provision for credit losses should be recorded in the statements of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal credit rating of the loan since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

As of December 31, 2013, 2012 and 2011, allowance for impairment and credit losses on loans and receivables of the Bank amounted to P420.6 million, P405.6 million and P384.1 million, respectively (see Notes 8 and 12). The carrying value of loans and receivables, net of allowance for credit losses, amounted to P16.2 billion, P13.5 billion and P14.4 billion as of December 31, 2013, 2012 and 2011, respectively (see Note 8).

Impairment of Nonfinancial Assets - Property and Equipment, Investment Properties and Computer Software Costs
The Bank assesses impairment on property and equipment, investment properties and software costs whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;

- significant changes in the manner of use of the acquired assets or the strategy for overall business; and

- significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount used is the value in use.

As of December 31, 2013, 2012 and 2011 the carrying value of property and equipment amounted to P164.6 million, P201.4 million and P246.7 million, respectively (see Note 9). As of December 31, 2013, 2012 and 2011, the carrying value of investment properties amounted to P17.6 million, P4.4 million, and P4.3 million respectively (see Note 10). As of December 31, 2013, 2012 and 2011, the carrying value of computer software costs amounted to P103.3 million, P127.3 million, and P116.0 million respectively (see Note 11).

As of December 31, 2013, 2012 and 2011, there was no impairment loss on nonfinancial assets recognized in the statements of income.

Recognition of Deferred Income Taxes
Deferred tax assets are recognized for all unused tax losses and future tax credits to the extent that it is probable that taxable profit will be available against which the losses can 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 recognized net deferred tax assets as of December 31, 2013, 2012 and 2011 amounting to P165.8 million, P186.2 million and P282.8 million, respectively. The tax base amounts for which the Bank did not recognize any deferred tax assets are P120.0 million, P52.9 million and P103.8 million as of December 31, 2013, 2012 and 2011 respectively (see Note 21).

Present Value of Defined Benefit Retirement Obligation
The present value of the defined benefit retirement obligation depends on a number of factors and assumptions such as discount rate and salary increase rate. These assumptions are described in Note 19 to the financial statements.

The Bank determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows to settle the retirement obligations. In determining the appropriate discount rate, the Bank considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions. While it is believed that the Bank's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Bank's defined benefit retirement obligation.

The present value of the Bank's defined benefit retirement obligation amounted to P185.1 million, P88.1 million and P140.3 million as at December 31, 2013, 2012 and 2011, respectively (see Note 19).

The net retirement liability (asset) of the Bank amounted to P47.1 million, (P19.5 million) and P53.8 million as at December 31, 2013, 2012 and 2011, respectively (see Note 11, 15 and 19).

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

5. Financial Risk and Capital Management Objectives and Policies

The Bank is in the business of creating value out of taking risks.

Financial risks arise primarily from the use of financial instruments which include:

- Credit risk
- Market risk
- Liquidity risk

The following principles summarize the Bank's overall approach to risk management:

- The BOD provides the overall direction and supervision of the Bank's risk management;

- The key risks faced by the Bank - both financial and non-financial - are managed by appropriate functional levels within the Bank;

- The risk management functions are independent of the businesses (also referred to as Front office) that take and assume risks; and

- Risk management involves managing the balance between risk and reward, to enable the Bank to fulfill its commitment to protect shareholder interest, as well as deliver value to the banking public, and comply with relevant regulations.

Risk Management Structure
The BOD is ultimately responsible for oversight of the Bank's risk management process which involves identifying, measuring, analyzing, monitoring and controlling risks. It created the Risk Management Committee, a board-level independent committee with explicit authority and responsibility for managing and monitoring risks. It has oversight role over the independent risk functions of Institutional and Retail Credit Risk Management Group (ICRMG/RCRMG) (credit risk), Market Risk Management Department (market risk, liquidity risk and interest rate risk in the banking books) and the Risk Team (operational risk). The Risk Team is a multi-disciplinary group composed

of the Chief Risk Officer, Chief Financial Officer, Internal Audit Head, Compliance Officer, Enterprise-Wide Risk Manager and Market Risk Manager. The Risk Team conducts a regular Management Committee meeting that is devoted to discussion of operational risk issues identified by the business units through a self-assessment system.

Internal Audit's role is to assist the Bank's management, the Audit Committee and Risk Management Committee by examining, evaluating, reporting and recommending improvements on the adequacy and effectiveness of the organization's risk management and control processes. Internal Audit, acting in a consulting role, assists the Bank in identifying, evaluating and implementing risk management methodologies and controls to address those risks.

In 2010, the Bank further refined their risk management structure by institutionalizing the role of the Chief Risk Officer (CRO). As the Enterprise-Wide Risk Management (EWRM) champion, the CRO facilitates the execution of EWRM processes and infrastructure as a key enabler to achieving the business objectives of the organization.

The CRO manages and develops a comprehensive process for assessing, identifying, monitoring and reducing pertinent business risks that could interfere with the Bank's objectives and goals. It is usually the CRO's responsibility to ensure that the Bank is in substantial compliance with its internal operating policies and procedures and any external legal, regulatory or contractual requirements.

The following are the different Risk Groups governed by the CRO:

- Office of the Chief Risk Officer;
- Enterprise-Wide Risk Management Department (EWRMD);
- Institutional Credit Risk Management Group (ICRMG);
- Retail Credit Risk Management Group (RCRMG); and
- Market Risk Management Department (MRMD) - Market Risk, Liquidity Risk and Interest Rate Risk in the Banking Books (IRRBB)

<u>Credit Risk</u>
Credit risk is the risk that one party to a financial transaction will fail to honor an obligation and cause the Bank to incur a financial loss. Credit risk arises primarily from the Bank's corporate and retail loans (customer credit risk) and investment securities (counterparty credit risk).

With respect to corporate credit risk, ICRMG is mainly responsible for the following:

(a) safeguard the quality of the Bank's institutional loan portfolio; and

(b) provide support services to the lending units of the Bank.

To safeguard the quality of the loan portfolio of the Bank, ICRMG performs the following functions:

(a) conduct pre-approval review of credit proposals of lending units;

(b) assist in structuring appropriate credit facilities;

(c) provide policy guidelines to the lending units in order to standardize the credit process;

(d) coordinate with the lending units on the required post-approval requirements (i.e., Loan Review Report, Account Planning, etc.) in the management of existing accounts;

(e) conduct regular meetings to discuss problem accounts;

(f) review/endorse loan loss provisions for problematic accounts; and

(g) provide senior management with reports pertaining to the quality of the loan portfolio.

Each credit proposal undergoes an evaluation process in order to determine its acceptability. The evaluation process involves the identification of credit risks after having assessed key factors including, target market/industry, management, appropriateness of credit facilities, terms and conditions, financial performance and condition, collateral and others.

The credit risk identification framework also consists of an internal risk rating system that has a blend of both quantitative and qualitative factors. The Obligor's risk rating (ORR) ranges from ORR 1 to 17, with ORR 1 being the lowest credit risk and 14 to 17 representing the classified accounts (Especially Mentioned to Loss).

One of the Bank's risk monitoring exercises is its semi-annual review of corporate accounts via the Loan Ratings Review (LRR). Exempted from this are accounts fully-secured by cash or government securities, and classified accounts following internal and BSP guidelines on account classification, categorized as EW2/EW3 (for the internal classification) and especially mentioned (I), Substandard (II), and Doubtful (III), and Loss (IV) (for the BSP classification). The LRR, accomplished six (6) months after approval date, covers the borrower's relationship with the Bank, updated financial performance, repayment capability, identification of major risks, outlook, etc. It also assesses account classification and ORR. If deterioration in credit is identified, either Institutional Banking Group (IBG) or ICRMG have the discretion to include it in any of the Early Warning (EW) buckets, which calls for the submission of a Notification report, quarterly or more frequent LRR (for EW1 accounts), and Account Planning reports (for EW2 and EW3 accounts). If deemed appropriate, EW2 and EW3 accounts may be transferred to Special Asset Management Division (SAMD) for handling. Apart from these, the Relationship Manager (RM) is required to provide updates during Credit Committee meetings.

IBG or SAMD RM (depending on the classified account owner) and Litigation Head of Legal Department are also required to report to the Credit Committee the status of the classified accounts at least twice a month and once a month for an EW account. Depending on the outstanding exposure of an EW2/EW3 account, the RM regularly prepares the Account Planning reports for approval either of the Credit Committee or Executive Committee. The Account Planning report covers the loan details of the account including the outstanding principal, loan loss provision, the action plan and present status of the account which includes the progress diary enumerating the series of events that took place covering the Account Planning period and financial/operation analysis. The same Account Planning report is referenced for the corresponding BSP classification.

Monthly classified accounts are also being prepared by Credit Administration Department (CAD) for the senior management guidance covering the list of classified accounts and its corresponding loan loss provision.

The Head of the ICRMG reports regularly to the Credit Committee to discuss the Corporate Credit Risk Profile including but not limited to the Past Due Loan, Non Performing Loan, Concentration Risk, Action Plan for each Non Performing account and their corresponding timeline.

On the Retail Banking side, Retail Credit Risk Management Group (RCRMG) is responsible in managing retail credit risk that mainly arises from granting of loans for the personal consumption of the individual borrowers such as public loans, salary loans for employees of accredited corporate entities and housing or mortgage loans.

For retail loans, risk is assessed and managed at a portfolio level. For Public Personal Loans, this is accomplished through the use of Application and Behavioral credit scorecards. For Corporate Personal Loans and Mortgage/Housing Loans, this is performed through the implementation of risk caps (program and deviation) and execution of a risk criteria review process (rule-based criterion or eligibility criteria).

In line with this approach, risk identification is performed through the following process workflow stages:

Process	Public Personal Loan	Corporate Personal Loan	Housing/Mortgage Loan
Pre-screening	Y	Y	Y
Duplicate check	Y	Y	Y
Policy check	Y	Y	Y
Credit scorecard	Y	N	N
Credit verification	Y	Y	Y
Appraisal	N	N	Y
Deviation review	Y	Y	Y
Approval/reject	Y	Y	Y

In the execution of the above processes, functional segregation of processor, evaluator and approver responsibilities are observed. Approving authorities are granted based on qualification, competence and capacity. The approving authority hierarchy follows retail core credit policy set by the Parent Bank such that credit delegation is defined by credit officer and senior credit officer levels, by amounts and by risk level in evaluation and approval of its loan applications by product.

Retail credit risk policies and processes are managed by the Bank by upholding the 3-Level Document framework set by the Parent Bank.

1. Policies (Governance, Global Retail Credit Policy) are established by the Parent Bank.

2. Guidance/Principle (Product Guideline) provides an outline of the business strategy and defined management guidelines including product features, eligibility criteria, account management and approval guidelines as approved by the Bank's BOD.

3. Procedures and Working Manual:

   a. Contains the business and credit policies and operating level procedures managed by each department (Product Procedure) that requires approval of the Bank's President;

   b. Defines the routine operational procedures for each business execution (Working Manual) as approved by the respective Group Head; and

   c. Outlines the forms and documents utilized by users to perform business activities as approved by the related Department Head.

Amendments to the fundamental policies may only be instituted through a progression, completion and analysis of performance of a test program or changes to business initiatives or market behavior as evidenced by empirical data, but still subject to respective approval hierarchy.

In addition, RCRMG also handles retail loan portfolio performance reviews and reporting through preparation of monthly asset quality reports, loan portfolio analyses and scorecard performance monitoring reports. Included in these periodic reports are through-the-door analysis, delinquency performance review, industry performance review, risk classification review, scorecard measurement benchmarks review as well as tracking of risk caps.

These functions enable RCRMG in the crafting of new and enhanced credit policies and processes that mitigates possible losses due to retail credit risk.

Counterparty Credit Risk
Credit risk with respect to investment securities, including derivative financial instruments, is generally limited to the carrying values (positive fair values for derivatives) reported in the statements of financial position. Counterparty credit risk could arise as a result of counterparties defaulting on their obligations to pay the principal and coupon (positive fair value at maturity for derivatives).

Maximum Exposure to Credit Risk After Collateral Held or Other Credit Enhancements

An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements is shown below (in thousands):

		2013				2012				2011 (As restated - see Note 29)			
	Note	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancements	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancements	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancements
Credit risk exposure relating to on balance sheet assets are as follows:													
Loans and receivables													
Due from BSP and other banks		**P7,902,922**	**P -**	**P7,902,922**	**P -**	P4,786,120	P -	P4,786,120	P -	P6,589,808	P -	P6,589,808	P -
Interbank loans receivable		**1,399,543**	**-**	**1,399,543**	**-**	-	-	-	-	2,721,936	-	2,721,936	-
Loans and discounts - net	*8*												
Institutional banking		**9,639,263**	**367,752**	**9,271,511**	**367,752**	6,592,415	751,016	5,841,399	751,016	7,154,192	364,515	6,789,677	364,515
Retail banking		**3,277,879**	**-**	**3,277,879**	**-**	3,270,568	-	3,270,568	-	3,075,521	-	3,075,521	-
Mortgage banking		**1,836,620**	**1,532,388**	**304,232**	**1,532,388**	1,777,984	1,665,339	112,645	1,665,339	1,965,294	1,477,534	487,760	1,477,534
Small business loans		**601,944**	**558,619**	**43,325**	**558,619**	609,831	530,048	79,783	530,048	637,734	501,109	136,625	501,109
Accrued interest receivable		**130,240**	**-**	**130,240**	**-**	135,400	-	135,400	-	135,582	-	135,582	-
Other receivables		**396,177**	**-**	**396,177**	**-**	566,014	-	566,014	-	674,642	-	674,642	-
Unquoted debt securities	*8*	**344,573**	**-**	**344,573**	**-**	577,425	-	577,425	-	761,354	-	761,354	-
Other assets	*11*	**31,387**	**-**	**31,387**	**-**	32,433	-	32,433	-	30,567	-	30,567	-
Subtotal		**25,560,548**	**2,458,759**	**23,101,789**	**2,458,759**	18,348,190	2,946,403	15,401,787	2,946,403	23,746,630	2,343,158	21,403,472	2,343,158
Financial assets at FVPL	*7*												
Held for trading government debt		**862,197**	**-**	**862,197**	**-**	633,187	-	633,187	-	52,488	-	52,488	-
Derivative assets		**13,180**	**-**	**13,180**	**-**	2,796	-	2,796	-	636	-	636	-
Subtotal		**875,377**	**-**	**875,377**	**-**	635,983	-	635,983	-	53,124	-	53,124	-
AFS investments	*7*												
Government debt		**432,747**	**-**	**432,747**	**-**	1,327,240	-	1,327,240	-	579,012	-	579,012	-
Unquoted equity securities		**12,904**	**-**	**12,904**	**-**	12,984	-	12,984	-	12,872	-	12,872	-
Subtotal		**445,651**	**-**	**445,651**	**-**	1,340,224	-	1,340,224	-	591,884	-	591,884	-
Held-to-maturity investments	*7*												
Government debt		**361,138**	**-**	**361,138**	**-**	332,696	-	332,696	-	264,795	-	264,795	-
		27,242,714	**2,458,759**	**24,783,955**	**2,458,759**	20,657,093	2,946,403	17,710,690	2,946,403	24,656,433	2,343,158	22,313,275	2,343,158
Credit risk exposures relating to off-balance sheet items are as follows:													
Credit commitments and other credit related-liabilities		**545,412**	**-**	**545,412**	**-**	218,579	-	218,579	-	306,011	-	306,011	-
Total		**P27,788,126**	**P2,458,759**	**P25,329,366**	**P2,458,759**	P20,875,672	P2,946,403	P17,929,269	P2,946,403	P24,962,444	P2,343,158	P22,619,286	P2,343,158

Other receivables include loans granted to employees, interest and other receivables. Other assets in the table above exclude non-financial assets such as computer software costs - net, prepaid expenses and other charges and miscellaneous.

Contingent assets consist primarily of standby letters of credit, while commitments pertain to undrawn loan commitments for which the Bank is contractually obliged to extend once the borrowers draw on such commitments.

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the credit risk that could arise in the future as a result of changes in values.

For the other financial assets, the carrying amount represents the maximum exposure to credit risk as of December 31, 2013, 2012 and 2011.

Credit-Related Commitments Risks

The Bank extends guarantees, commitment facilities, letters of credit and other off-balance sheet credit-related commitments that may require the Bank to make payments on borrower's behalf. Such transactions expose the Bank to credit risks similar to loans and receivables and are monitored and managed by the Bank using the same credit risk control and management processes and policies. Some consumer asset products under this nature are covered by documentations and drafts that are reviewed and prepared by Bank's lawyers and compliance officers to ensure that it is within acceptable risk and standards. Guarantees carry clauses that are all with reference to applicable laws, regulations, and approved guidelines and policies with some carrying expiry periods or validity to ensure that it is time bound and flexible enough to control losses from changes in external environment to include, among others, changing market conditions such as interest rates or pricing, and monetary policies. See Note 25 for further details of these commitments.

Risk Concentrations of the Maximum Exposure to Credit Risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

Concentrations of risk are managed by counterparty and by industry sector.

An industry sector analysis of both the on- and off-balance sheet exposures, before taking into account collateral held or other credit enhancements, is as follows (in thousands):

	2013						
	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		
	Amount	%	Amount	%	Amount	%	Total
Financial intermediaries*	P1,733,805	10. 68	P10,971,729	99.60	P -	-	P1,705,534
Manufacturing	4,764,937	29.36	-	-	382,055	70.05	5,146,992
Wholesale and retail	2,061,040	12.70	-	-	128,657	23.59	2,189,697
Real estate, renting and business activities	3,637,756	22.42	-	-	-	-	3,637,756
Public administration and defense	-	-	-	-	-	-	-
Construction	217,379	1.34	-	-	-	-	217,379
Transport, storage and communications	228,790	1.41	-	-	-	-	228,790
Electricity, gas and water	4	-	-	-	20,710	3.80	20,714
Agriculture, hunting and forestry	1,168	0.01	-	-	-	-	1,168
Others**	4,046,406	24.94	44,291	0.40	13,990	2.56	4,104,687
Total	16,691,285	102.86	11,016,020	100.00	545,412	100.00	28,252,717
Allowance for credit losses	(420,631)	-2.59	-	-	-	-	(420,631)
Unearned interest discount and capitalized interest	(43,959)	-0.27	-	-	-	-	(43,959)
	P16,226,695	100.00	P11,016,020	100.00	P545,412	100.00	P27,788,127

	2012 (As restated - see Note 29)						
	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		
	Amount	%	Amount	%	Amount	%	Total
Financial intermediaries*	P979,011	7.24	P7,082,038	99.36	P -	-	P8,061,049
Manufacturing	3,525,859	26.06	-	-	60,480	27.67	3,586,339
Wholesale and retail	1,265,154	9.35	-	-	49,447	22.62	1,314,601
Real estate, renting and business activities	3,145,562	23.25	-	-	-	-	3,145,562
Public administration and defense	-	-	-	-	-	-	-
Construction	171,223	1.27	-	-	-	-	171,223
Transport, storage and communications	576,586	4.26	-	-	-	-	576,586
Electricity, gas and water	1,708	0.01	-	-	102,411	46.85	104,119
Agriculture, hunting and forestry	84,044	0.62	-	-	-	-	84,044
Others**	4,214,750	31.15	45,418	0.64	6,241	2.86	4,266,409
Total	13,963,897	103.21	7,127,456	100.00	218,579	100.00	21,309,932
Allowance for credit losses	(405,575)	(3.00)	-	-	-	-	(405,575)
Unearned interest discount and capitalized interest	(28,685)	(0.21)	-	-	-	-	(28,685)
	P13,529,637	100.00	P7,127,456	100.00	P218,579	100.00	P20,875,672

	2011 (As restated - see Note 29)						
	Loans and Receivables		Other Financial Assets		Off-Balance Sheet Exposures		
	Amount	%	Amount	%	Amount	%	Total
Financial intermediaries*	P1,934,305	13.43	P10,208,675	99.58	P -	-	P12,142,980
Manufacturing	3,099,566	21.52	-	-	99,316	32.45	3,198,882
Wholesale and retail	1,056,746	7.34	-	-	13,246	4.33	1,069,992
Real estate, renting and business activities	1,370,001	9.51	-	-	-	-	1,370,001
Public administration and defense	1,137,685	7.90	-	-	-	-	1,137,685
Construction	168,210	1.17	-	-	-	-	168,210
Transport, storage and communications	240,348	1.67	-	-	-	-	240,348
Electricity, gas and water	2,488	0.02	-	-	190,912	62.39	193,400
Agriculture, hunting and forestry	57,682	0.40	-	-	-	-	57,682
Others**	5,767,780	40.04	43,440	0.42	2,537	0.83	5,813,757
Total	14,834,811	103.00	10,252,115	100.00	306,011	100.00	25,392,937
Allowance for credit losses	(384,141)	(2.68)	-	-	-	-	(384,141)
Unearned interest discount and capitalized interest	(46,352)	(0.32)	-	-	-	-	(46,352)
	P14,404,318	100.00	P10,252,115	100.00	P306,011	100.00	P24,962,444

** Financial intermediaries include investment in Landbank Bonds classified as 'Unquoted debt securities'.*
***Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*

The Bank generally considers concentration risk as excessive when the ratio of a particular segment's exposure (e.g., this may be an industry demographic attribute, or a program) to the total portfolio exceeds predetermined limits.

The Bank considers concentration risk to be present in its loans and receivables when the total exposure to a particular industry or sector exceeds 25% of the total loan portfolio. The BSP considers that credit concentration risk exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio. As of December 31, 2013, 2012 and 2011, the Bank does not have significant loan concentration to any particular industry based on BSP threshold.

The Bank manages concentration risk by gearing policies towards regular monitoring and periodic review of the set limits per predetermined segments. Annual updates to the policy include a review of the industry concentration limits and other segmental concentrations within the portfolio. Business intelligence reports sourced from internal and external parties are used as guide in setting up the limits yearly. Industries covered under the industry concentration limits are similarly reviewed to update classifications and coverage.

Credit Quality Per Class of Financial Assets
The credit quality of financial assets is monitored and managed using external and internal ratings. The credit quality of investment securities is generally monitored by reference to the external ratings provided by accredited external credit assessment rating institutions, as follows:

- Moody's
- Standard and Poor's

In cognizance of the requirements of the BSP, the ORR was implemented to all applicable corporate accounts of the IBG of the Bank. The objectives of the system are the following:

(a) to have a standard system of credit rating;

(b) to be able to objectively quantify the credit quality of an account;

(c) to have a "benchmark" for credit/loan review; and

(d) to train and instill discipline in assessing credit risk among account officers and credit officers.

The rating system is an amalgamation of quantitative and qualitative factors. The quantitative factors include, among others, financial indicators on liquidity, leverage, and cash flows. The qualitative factors include among others the quality of management, length of establishment, market standing, reliability of financial statements, etc.

The ORR of each account shall be recorded together with other information such as the date the ORR was conducted, and the account officer who conducted the ORR. These data combined with other historical and future ORR data on the loan portfolio will be used to estimate the loan default rates associated with each rating grade.

It is the Bank's policy to maintain accurate and of consistent risk ratings across the credit portfolio. This facilitates focused management of major potential risk and the comparison of credit exposures across all lines of business, demographic and products.

The table below shows the credit risk rating comprising each category of credit quality and the equivalent external grades for each internal credit risk rating applied for comparison purposes only.

	ORR Internal Credit Risk Ratings (Institutional Banking)	Internal Scoring and Ratings (Retail Banking)	Moody's Equivalent Grades**
High grade	1	Low Risk	Aa3 or better
	2	-do-	A1 to A3
	3	-do-	Baa1
	4	-do-	Baa2
	5	-do-	Baa3
Standard grade	6	Medium Risk	Ba1
	7	-do-	Ba2
	8	-do-	Ba2

Forward

	ORR Internal Credit Risk Ratings (Institutional Banking)	Internal Scoring and Ratings (Retail Banking)	Moody's Equivalent Grades**
	9	-do-	Ba2
	10	-do-	B1
	11	-do-	B2
	12	-do-	B3
	13	-do-	Caa or worse
Substandard grade*	14	High Risk	-do-
	15	-do-	-do-
	16	-do-	-do-
	17	-do-	-do-

* already equivalent to substandard status
**equivalent Standard and Poor's ratings apply

High grade receivables are those which have high probability of collection, as evidenced by counterparties having the ability to satisfy their obligations and that the collaterals used to secure the loans/receivables are readily enforceable. Standard grade receivables are receivables where collections are probable due to the reputation and the financial ability to pay of the counterparty but which have been outstanding for a considerable length of time. Substandard grade receivables are those where the counterparties are not capable of honoring their financial obligations.

For Retail Banking, credit quality is monitored using internal ratings. For Public Personal Loans, risk differentiation or risk rating is established by scorecard models. Scorecard variables are assigned scores based on their discriminative power to differentiate good-bad factors. Higher scores assigned to a loan applicant denote better risk and therefore lower propensity to default. For Corporate Personal Loans, the employer's repayment management and performance within its defined default ratio caps is salient to measuring risk.

For Mortgage portfolio, risk differentiation is tied to income classification. Performance review of the mortgage portfolio identifies income as a good risk indicator, such that, higher income segments denotes better risk as manifested in the risk-ranking of customers by income bands.

The credit quality of trading and financial investment securities is generally monitored through the external ratings of eligible external credit assessment rating institutions. The table above presents the mapping of external ratings to the Bank's credit quality classification.

The tables below show the credit quality by class of the Bank's financial assets, including loans and receivables (gross of allowance for credit losses and unearned interest discount, in thousands).

	2013						
	Neither Past Due nor Specifically Impaired				**Past Due but not Specifically Impaired**	**Specifically Impaired**	**Total**
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**			
Loans and receivables							
Due from BSP	**P5,903,002**	**P -**	**P -**	**P -**	**P -**	**P -**	**P5,903,002**
Due from other banks	**1,999,921**	**-**	**-**	**-**	**-**	**-**	**1,999,921**
Interbank loans receivable	**1,399,543**	**-**	**-**	**-**	**-**	**-**	**1,399,543**
Loans and discounts							
Institutional banking	**469,178**	**9,083,778**	**61,439**	**-**	**-**	**50,253**	**9,664,648**
Retail banking	**2,241,591**	**959,771**	**22,700**	**-**	**78,614**	**261,056**	**3,563,732**
Mortgage banking	**1,256,663**	**419,797**	**37,287**	**2,023**	**73,700**	**76,578**	**1,866,048**
Small business loans		**558,619**	**-**	**45,014**	**-**	**-**	**603,633**
Accrued interest receivable	**30,370**	**19,122**	**6,041**	**75,494**	**922**	**6,545**	**138,494**
Others receivables	**-**	**-**	**-**	**501,111**	**-**	**-**	**501,111**
Unquoted debt securities	**353,619**	**-**	**-**	**-**	**-**	**-**	**353,619**
Other assets	**-**	**-**	**-**	**31,387**	**-**	**-**	**31,387**
Subtotal	**13,653,887**	**11,041,087**	**127,467**	**655,029**	**153,236**	**394,432**	**26,025,138**
Financial assets at FVPL							
Held-for-trading government debt	**862,197**	**-**	**-**	**-**	**-**	**-**	**862,197**
Derivative assets	**-**	**13,180**	**-**	**-**	**-**	**-**	**13,180**
Subtotal	**862,197**	**13,180**	**-**	**-**	**-**	**-**	**875,377**
AFS investments							
Government debt	**-**	**432,748**	**-**	**-**	**-**	**-**	**432,748**
Unquoted equity securities	**12,904**	**-**	**-**	**-**	**-**	**-**	**12,904**
Subtotal	**12,904**	**432,748**	**-**	**-**	**-**	**-**	**445,652**
HTM investments							
Government debt	**361,138**	**-**	**-**	**-**	**-**	**-**	**361,138**
Total	**P14,890,126**	**P11,487,015**	**P127,467**	**P655,029**	**P153,236**	**P394,432**	**P27,707,305**

	2012 (As restated - see Note 29)						
	Neither Past Due nor Specifically Impaired				Past Due but not Specifically Impaired	Specifically Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Loans and receivables							
Due from BSP	P4,329,274	P -	P -	P -	P -	P -	P4,329,274
Due from other banks	456,846	-	-	-	-	-	456,846
Interbank loans receivable	-	-	-	-	-	-	-
Loans and discounts							
Institutional banking	577,254	6,021,260	-	-	-	4,517	6,603,031
Retail banking	2,094,171	1,032,997	36,829	-	93,678	276,138	3,533,813
Mortgage banking	1,251,043	368,423	23,584	8,014	93,074	51,167	1,795,305
Small business loans	-	500,142	-	81,444	29,934	-	611,520
Accrued interest receivable	42,067	17,881	171	75,253	-	8,344	143,716
Others receivables	-	-	-	683,026	-	-	683,026
Unquoted debt securities	515,422	-	-	78,064	-	-	593,486
Other assets	-	-	-	32,433	-	-	32,433
Subtotal	9,266,077	7,940,703	60,584	958,234	216,686	340,166	18,782,450
Financial assets at FVPL							
Held-for-trading government debt	633,187	-	-	-	-	-	633,187
Derivative assets		2,796	-	-	-	-	2,796
Subtotal	633,187	2,796	-	-	-	-	635,983
AFS investments							
Government debt	-	1,327,240	-	-	-	-	1,327,240
Unquoted equity securities	12,984	-	-	-	-	-	12,984
Subtotal	12,984	1,327,240	-	-	-	-	1,340,224
HTM investments							
Government debt	332,696	-	-	-	-	-	332,696
Total	P10,244,944	P9,270,739	P60,584	P958,234	P216,686	P340,166	P21,091,353

	2011 (As restated - see Note 29)						
	Neither Past Due nor Specifically Impaired				Past Due but not Specifically Impaired	Specifically Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Loans and receivables							
Due from BSP	P1,913,242	P -	P -	P -	P -	P -	P1,913,242
Due from other banks	4,676,566	-	-	-	-	-	4,676,566
Interbank loans receivable	2,721,936	-	-	-	-	-	2,721,936
Loans and discounts							
Institutional banking	332,373	6,818,350	-	-	-	38,101	7,188,824
Retail banking	1,634,512	1,223,187	123,640	-	83,560	255,281	3,320,180
Mortgage banking	1,380,494	413,065	35,632	17,189	89,235	57,116	1,992,731
Small business loans	-	534,626	-	103,595	-	1,226	639,447
Accrued interest receivable	158	16,023	-	120,566	-	5,606	142,353
Others receivables	-	-	-	763,628	-	-	763,628
Unquoted debt securities	714,808	-	-	72,840	-	-	787,648
Other assets	-	-	-	30,567	-	-	30,567
Subtotal	13,374,089	9,005,251	159,272	1,108,385	172,795	357,330	24,177,122
Financial assets at FVPL							
Held-for-trading government debt	52,488	-	-	-	-	-	52,488
Derivative assets	-	636	-	-	-	-	636
Subtotal	52,488	636	-	-	-	-	53,124
AFS investments							
Government debt	-	579,012	-	-	-	-	579,012
Unquoted equity securities	12,873	-	-	-	-	-	12,873
Subtotal	12,873	579,012	-	-	-	-	591,885
HTM investments							
Government debt	264,795	-	-	-	-	-	264,795
Total	P13,704,245	P9,584,899	P159,272	P1,108,385	P172,795	P357,330	P25,086,926

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

	2013			2012			2011		
	Less than 30 Days	**31 to 90 Days**	**Total**	Less than 30 Days	31 to 90 Days	Total	Less than 30 Days	31 to 90 Days	Total
Loans and Discounts									
Retail banking	**P717**	**P77,897**	**P78,614**	P3,702	P89,976	P93,678	P146	P83,414	P83,560
Mortgage banking	**-**	**73,700**	**73,700**	-	93,074	93,074	-	89,235	89,235
Small business loans	**-**	**-**	**-**	29,934	-	29,934	-	-	-
Accrued interest receivable	**-**	**922**	**922**	-	-	-	-	-	-
Total	**P717**	**P152,519**	**P153,236**	P33,636	P183,050	P216,686	P146	P172,649	P172,795

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 payments when due.

See Note 12 for the detailed information with respect to the Bank's allowance for impairment and credit losses on loans and receivables.

Included in specifically impaired financial assets are the Bank's restructured loan receivables. The table below shows the carrying amounts of restructured loan receivables by class (in thousands):

	2013	2012	2011
Institutional banking			
Performing	**P1,719**	P3,517	P -
Non-performing	**-**	-	5,475
Personal loans			
Performing	**1,979**	172	1,226
Non-performing	**3,389**	4,126	-
Mortgage banking			
Performing	**551**	824	2,520
	P7,638	P8,639	P9,221

Restructured performing and non-performing loans (NPLs) of the Bank, net of specific impairment allowances as determined by PAS 39, as of December 31, 2013, 2012 and 2011 amounted to P0.3 million, P2.9 million and P3.6 million, respectively.

Non-performing Loans

The Bank monitors its NPLs ratio as part of its credit risk monitoring and reporting to the BSP. Shown below are the Bank's NPL:

	2013	2012	2011
Secured	**P76,578,012**	P33,774,131	P14,561,468
Unsecured	**311,701,105**	294,626,293	336,282,672
	P388,279,117	P328,400,424	P350,844,140

NPLs refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be 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 shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10%) of the total receivable balance.

Receivables are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Receivables are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Collateral and Credit Risk Mitigation Techniques
The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty. The Bank follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained for loans and receivables are as follows:

- For Institutional Lending - cash, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred.

- For Retail Lending - mortgages on residential properties and vehicles financed.

Management regularly monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of collateral is considered during the review of the adequacy of the allowance for impairment and credit losses. For unsecured lending, the Bank performs comprehensive credit evaluation process before each loan is approved.

The following table shows information relating to loans and receivables (at gross amounts) broken down into secured and unsecured, with types of collateral being shown for the secured portion:

	2013		2012		2011 (As restated - see Note 29)	
	Amount	**%**	Amount	%	Amount	%
Secured by:						
Real estate	**P3,385,079,254**	**20.28**	P2,609,198,946	18.69	P2,532,433,451	17.07
Hold-out on deposits	**588,835,288**	**3.53**	501,594,321	3.59	546,139,390	3.68
Chattel	**97,368,190**	**0.58**	72,228,939	0.52	15,234,544	0.10
Government Bonds	**70,442,240**	**0.42**	76,600,180	0.54	-	-
Mortgage trust indenture	**50,077,778**	**0.30**	25,069,125	0.18	25,018,264	0.17
Government guarantee	**377,610,271**	**2.26**	549,825,530	3.94	1,889,835,374	12.74
Special deposit account	**12,744,917**	**0.08**	53,596,105	0.38	27,418,270	0.19
	4,582,157,938	**27.45**	3,888,113,146	27.84	5,036,079,293	33.95
Unsecured	**12,109,127,259**	**72.55**	10,075,783,965	72.16	9,798,732,101	66.05
	P16,691,285,197	**100.00**	P13,963,897,111	100.00	P14,834,811,394	100.00

As of December 31, 2013, 2012 and 2011 for past due and impaired loans and discounts, the fair values of real estate collaterals held amounted to P66.0 million, P50.7 million and P78.6 million, respectively. There were no other types of collaterals held during 2013, 2012 and 2011, respectively.

Fair values were determined by the Bank's internal appraisers, or by accredited external appraisers. Normally, there are three approaches available to the Bank in arriving at the fair value of collateral (i.e., real estate, and chattel). These are the Cost approach, Market Data approach and the Income approach.

The Cost approach takes into consideration the current cost of reproducing a property less depreciation from all sources (i.e., deterioration, functional and economic obsolescence). On the other hand, the Market Data approach takes into consideration the value indicated by recent sales of comparable properties in the market. Lastly, the Income approach takes into consideration the value which the property's net earning power will support based upon a capitalization of net income.

The Bank utilizes all three approaches to determine the fair values of the collateral and chooses the appropriate valuation approach on a case-to-case basis.

As of the year ended December 31, 2013 and 2012, no collaterals were subjected to repurchase and reverse repurchase agreements with BSP. As of December 31, 2011, the fair value of collaterals subject to repurchase and reverse repurchase agreements with BSP amounted to P2.6 billion.

Liquidity Risk

Liquidity risk is the risk of loss to earnings or capital due to the inability to meet funding requirements within a reasonable period of time at a reasonable price.

The Bank applies a liquidity risk management strategy of maintaining sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions.

MRMD is responsible in managing liquidity risk. MRMD is independent of the risk-taking unit and in charge of formulating Asset and Liability Management Policy and establishing implementation guidelines as needed; developing the methods of identification, measurement, monitoring and reporting of risk and pushing for the implementation; and studying asset and liability management related issues.

The table below shows the maturity profile of the Bank's financial liabilities, based on undiscounted contractual cash flows (in millions):

	2013					
	On Demand	**1 to 3 Months**	**3 to 6 Months**	**6 to12 Months**	**Greater than One Year**	**Total**
Deposit liabilities:						
Demand	**P4,954**	**P -**	**P -**	**P -**	**P -**	**P4,954**
Savings	**3,362**	**-**	**-**	**-**	**-**	**3,362**
Time	**4,045**	**3,670**	**1,205**	**184**	**-**	**9,104**
Bills and acceptances payable	**2,991**	**-**	**-**	**-**	**-**	**2,991**
Manager's checks	**67**	**-**	**-**	**-**	**-**	**67**
Accrued interest and other expenses*	**336**	**-**	**-**	**-**	**-**	**336**
Other liabilities**	**785**	**-**	**-**	**-**	**-**	**785**
	16,540	**3,670**	**1,205**	**184**	**-**	**21,599**
Future interest payments	**19**	**46**	**6**	**13**		**84**
	16,559	**3,716**	**1,211**	**197**	**-**	**21,683**
Financial liabilities at FVPL						
Forward contract payable	**1,136**	**-**	**-**	**-**	**-**	**1,136**
Forward contract receivable	**(1,152)**	**-**	**-**	**-**	**-**	**(1,152)**
	(16)					**(16)**
	P16,543	**P3,716**	**P1,211**	**P197**	**P -**	**P21,667**

* *Excludes Accrued taxes and other non-financial accruals.*
** *Excludes Withholding taxes payable and miscellaneous liabilities.*

	2012					
	On Demand	1 to 3 Months	3 to 6 Months	6 to12 Months	Greater than One Year	Total
Deposit liabilities:						
Demand	P4,307	P -	P -	P -	P -	P4,307
Savings	2,200	-	-	-	-	2,200
Time	2,861	1,993	449	117	73	5,493
Bills and acceptances payable	-	1,941	-	-	-	1,941
Manager's checks	37	-	-	-	-	37
Accrued interest and other expenses*	211	-	-	-	-	211
Other liabilities**	879	-	-	-	-	879
	10,495	3,934	449	117	73	15,068
Future interest payments	9	14	1	17	21	62
	10,504	3,948	450	134	94	15,130
Financial liabilities at FVPL						
Forward contract payable	1,407	-	-	-	-	1,407
Forward contract receivable	(1,407)	-	-	-	-	(1,407)
	-	-	-	-	-	-
	P10,504	P3,948	P450	P134	P94	P15,130

	2011 (As restated - see Note 29)					
	On Demand	1 to 3 Months	3 to 6 Months	6 to12 Months	Greater than One Year	Total
Deposit liabilities:						
Demand	P4,686	P -	P -	P -	P -	P4,686
Savings	2,339	-	-	-	-	2,339
Time	-	9,744	220	187	104	10,255
Bills and acceptances payable	-	1,097	-	-	-	1,097
Manager's checks	25	-	-	-	-	25
Accrued interest and other expenses*	283	-	-	-	-	283
Other liabilities**	953	-	-	-	-	953
	8,286	10,841	220	187	104	19,638
Future interest payments	33	8	21	18	29	109
	8,319	10,849	241	205	133	19,747
Financial liabilities at FVPL						
Forward contract payable	79	-	-	-	-	79
Forward contract receivable	(79)	-	-	-	-	(79)
	-	-	-	-	-	-
	P8,319	P10,849	P241	P205	P133	P19,747

* *Excludes Accrued taxes and other non-financial accruals.*
** *Excludes Withholding taxes payable and miscellaneous liabilities.*

The above maturity table shows the undiscounted cash flows whose expected maturities are not the same as the asset-liability gap. The Bank does not expect all time depositors to require repayment on the earliest date the Bank could be required to pay. Further, the maturity table does not reflect expected cash flows based on deposit behavior and historical retention rate.

Accrued interest and other expenses exclude taxes, payroll-related balances and other non-financial items. Other liabilities exclude non-financial liabilities such as withholding taxes payable and miscellaneous.

The table below shows the contractual expiry by maturity of the Bank's off-balance sheet commitments (in thousands).

	2013					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
Commitments	**P -**	**P -**	**P -**	**P -**	**P180,137**	**P180,137**
Contingent liabilities	**165,984**	**184,062**	**1,239**	**-**	**-**	**351,285**
Others	**13,990**	**-**	**-**	**-**	**-**	**13,990**
Total	**P179,974**	**P184,062**	**P1,239**	**P -**	**P180,137**	**P545,412**

	2012					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Commitments	P -	39,982	P -	P -	P -	P39,982
Contingent liabilities	117,613	54,743	-	-	-	172,356
Others	6,241	-	-	-	-	6,241
Total	P123,854	P94,725	P -	P -	P -	P218,579

	2011					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Commitments	P -	P -	P -	P -	P -	P -
Contingent liabilities	10,870	289,775	2,829	-	-	303,474
Others	2,537	-	-	-	-	2,537
Total	P13,407	P289,775	P2,829	P -	P -	P306,011

As required by the BSP, the Bank sets aside funds in Cash and Due from BSP as liquidity reserves. These funds are withdrawable on demand and are used as financial assets held for managing liquidity risk (see Note 13). The table further below on funding gap analysis provides a more comprehensive disclosure on how these financial assets are used to manage the Bank's liquidity risk.

To ensure that adequate liquidity is maintained at all times, the Bank's Liquidity and Balance Sheet Management Unit diversifies funding sources and evaluates cash flows and future funding needs on a daily basis. This involves projecting the Bank's liquidity position under current market conditions and stress scenarios. In addition to its core deposit base, the Bank maintains a portfolio of marketable assets that can be readily liquidated in the event of an unforeseen interruption of cash flows. Additional funding may be secured from the interbank market by tapping the Bank's credit facilities. Further, the Bank maintains with the BSP statutory reserves on its non-FCDU deposits.

Liquidity risk control entails primarily the setting of risk limits, which define management's tolerance for liquidity risk. Specifically, limits are set on the maximum cumulative outflow (MCO) and level of interbank borrowings. Liquidity risk is also monitored through the use of liquidity ratios. One of the more important liquidity ratios is the ratio of net liquid assets to total deposits. Net liquid assets consist of the sum of cash, due from banks, interbank loans, securities held for trade, available for sale, and held to maturity and unquoted debt securities with remaining maturities of less than one month, less interbank borrowings. The ratios for the year 2013, 2012 and 2011 were as follows:

	2013	2012	2011
December 31	**63%**	43%	54%
Average during the period	**64%**	42%	40%
Highest	**75%**	46%	54%
Lowest	**47%**	33%	27%

The impact of the restatements as disclosed in Note 29 on the liquidity ratio as of December 31, 2012 and 2011 is not material.

The funding gap analysis using estimated cash flows (in thousands) are as follows:

	2013								
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**2 Years**	**3 Years**	**4 Years**	**Greater than 5 Years**	**Total**
Assets									
Loans and receivables									
Cash and other cash items	**P390,642**	**P -**	**P -**	**P -**	**P -**	**P -**	**P -**	**P -**	**P390,642**
Due from BSP	**5,903,002**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,903,002**
Due from other banks	**1,999,921**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,999,921**
Interbank loans receivable	**1,399,543**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,399,543**
Loans and discounts - gross	**2,239,786**	**2,860,762**	**1,788,111**	**1,446,955**	**1,384,561**	**2,139,188**	**712,908**	**4,119,014**	**16,691,285**
Other assets*	**4,148**	**990**	**-**	**2,135**	**1,400**	**5,743**	**4,026**	**12,945**	**31,387**
Subtotal	**11,937,042**	**2,861,752**	**1,788,111**	**1,449,090**	**1,385,961**	**2,144,931**	**716,934**	**4,131,959**	**26,415,780**
Financial assets at FVPL	**13,180**	**-**	**-**	**-**	**97,497**	**4,073**	**162,237**	**598,390**	**875,377**
AFS investments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**445,652**	**445,652**
HTM investments	**40,105**	**5,089**	**-**	**42,697**	**62,638**		**1,100**	**209,508**	**361,137**
Total financial assets	**11,990,327**	**2,866,841**	**1,788,111**	**1,491,787**	**1,546,096**	**2,149,004**	**880,271**	**5,385,509**	**28,097,946**
Liabilities									
Financial liabilities at FVPL derivative liabilities	**1,587**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,587**
Other financial liabilities at amortized cost	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deposit liabilities	**12,361,373**	**3,669,718**	**1,205,093**	**183,725**	**-**	**-**	**-**	**-**	**17,419,909**
Bills payable	**2,974,465**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,974,465**
Outstanding acceptances	**16,575**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,575**
Manager's checks	**67,209**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**67,209**
Accrued interest and other expenses**	**335,736**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**335,736**
Other liabilities***	**784,909**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**784,909**
Total financial liabilities	**16,541,854**	**3,669,718**	**1,205,093**	**183,725**	**-**	**-**	**-**	**-**	**21,600,390**
Asset-liability gap	**(P4,551,527)**	**(P802,877)**	**P583,018**	**P1,308,062**	**P1,546,096**	**P2,149,004**	**P880,271**	**P5,385,509**	**P6,497,556**

* *Includes Returned Checks and other Cash items and Rent Deposit*
** *Excludes Accrued taxes and other non-financial accruals*
*** *Excludes Withholding taxes payable and miscellaneous liabilities*

	2012								
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	2 Years	3 Years	4 Years	Greater than 5 Years	Total
Assets									
Loans and receivables									
Cash and other cash items	P346,343	P -	P -	P -	P -	P -	P -	P -	P346,343
Due from BSP	4,329,274	-	-	-	-	-	-	-	4,329,274
Due from other banks	456,846	-	-	-	-	-	-	-	456,846
Interbank loans receivable	-	-	-	-	-	-	-	-	-
Loans and discounts - gross	2,238,338	2,164,582	1,537,077	853,201	1,627,894	3,103,509	241,835	2,197,461	13,963,897
Other assets*	2,161	-	1,672	1,117	5,442	1,811	5,672	14,558	32,433
Subtotal	7,372,962	2,164,582	1,538,749	854,318	1,633,336	3,105,320	247,507	2,212,019	19,128,793
Financial assets at FVPL	2,796	-	228	76,791	-	-	-	556,168	635,983
AFS investments	-	-	-	-	-	-	-	1,340,224	1,340,224
HTM investments	1,006	-	-	-	90,624	42,347	-	198,719	332,696
Total financial assets	7,376,764	2,164,582	1,538,977	931,109	1,723,960	3,147,667	247,507	4,307,130	21,437,696
Liabilities									
Financial liabilities at FVPL derivative liabilities	3,714	-	-	-	-	-	-	-	3,714
Other financial liabilities at amortized cost									
Deposit liabilities	9,367,479	1,993,291	448,893	117,326	72,939	-	-	135	12,000,063
Bills payable	1,929,350	-	-	-	-	-	-	-	1,929,350
Outstanding acceptances	12,132	-	-	-	-	-	-	-	12,132
Manager's checks	36,869	-	-	-	-	-	-	-	36,869
Accrued interest and other expenses**	210,734	-	-	-	-	-	-	-	210,734
Other liabilities***	878,736	-	-	-	-	-	-	-	878,736
Total financial liabilities	12,439,014	1,993,291	448,893	117,326	72,939	-	-	135	15,071,598
Asset-liability gap	(P5,062,250)	P171,291	P1,090,084	P813,783	P1,651,021	P3,147,667	P247,507	P4,306,995	P6,366,098

	2011 (As restated - see Note 29)								
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	2 Years	3 Years	4 Years	Greater than 5 Years	Total
Assets									
Loans and receivables									
Cash and other cash items	P328,043	P -	P -	P -	P -	P -	P -	P -	P328,043
Due from BSP	1,238,242	675,000	-	-	-	-	-	-	1,913,242
Due from other banks	4,676,566	-	-	-	-	-	-	-	4,676,566
Interbank loans receivable	2,717,680	4,256	-	-	-	-	-	-	2,721,936
Loans and discounts - gross	3,065,623	2,601,928	746,918	802,376	1,631,564	1,937,573	1,498,212	2,550,617	14,834,811
Other assets*	3,474	-	902	516	1,547	3,741	1,120	19,267	30,567
Subtotal	12,029,628	3,281,184	747,820	802,892	1,633,111	1,941,314	1,499,332	2,569,884	24,505,165
Financial assets at FVPL	636	27,244	-	7	-	-	-	25,237	53,124
AFS investments	-	-	-	-	-	-	-	591,885	591,885
HTM investments	29,968	56,081	-	-	1,038	53,038	-	124,670	264,795
Total financial assets	12,060,232	3,364,509	747,820	802,899	1,634,149	1,994,352	1,499,332	3,311,676	25,414,969
Liabilities									
Financial liabilities at FVPL derivative liabilities	26	-	-	-	-	-	-	-	26
Other financial liabilities at amortized cost									
Deposit liabilities	14,689,846	2,079,699	219,841	187,028	31,450	72,775	-	-	17,280,639
Bills payable	1,096,000	-	-	-	-	-	-	-	1,096,000
Outstanding acceptances	1,381	-	-	-	-	-	-	-	1,381
Manager's checks	24,679	-	-	-	-	-	-	-	24,679
Accrued interest and other expenses**	232,901	-	-	-	-	-	-	50,931	283,832
Other liabilities***	953,213	-	-	-	-	-	-	225	953,438
Total financial liabilities	16,998,046	2,079,699	219,841	187,028	31,450	72,775	-	51,156	19,639,995
Asset-liability gap	(P4,937,814)	P1,284,810	P527,979	P615,871	P1,602,699	P1,921,577	P1,499,332	P3,260,520	P5,774,974

* *Includes Returned Checks and other Cash items and Rent Deposit*
** *Excludes Accrued taxes and other non-financial accruals*
*** *Excludes Withholding taxes payable and miscellaneous liabilities*

Market Risk

Market risk is the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level, volatility or correlation of market risk factors, such as interest rates (including credit spread), foreign exchange, equities and commodities. The Bank's market risk originates from its holdings in its foreign exchange instruments, debt securities, and derivatives.

MRMD is responsible in managing market risk. MRMD performs the second line of defense. It is responsible for designing and executing appropriate identification, measurement, monitoring, control and reporting of market risk; and developing the market risk management policy and relevant procedures; and monitoring and reporting overall market risk profile and limit utilization.

The Bank classifies exposures to market risk into either trading or non-trading portfolios.

It is exposed to the potential loss in its trading portfolio because the values of its trading positions are sensitive to changes in the market prices and rates. Similarly, it is also exposed to market risk in its non-trading portfolio.

The Bank sets its market risk limits by considering market predictions, capital and annual budgets. It takes into account the correlation among different market risk factors to estimate potential loss using Value-at-Risk (VaR) approach and also determines if this potential loss is appropriate in light of the size of its annual budget. The Bank also determines its market risk limits by considering the experience of its risk-taking units and its risk appetite.

The Bank utilizes market risk factor sensitivities as a tool to manage market risk. Market risk factor sensitivities of a position are defined as a change in the value of a position caused by a unit shift in a given market factor. Market risk factor sensitivities include interest rate and foreign exchange factor sensitivities. The calculation of the factor sensitivities is obtained by measuring the effect of a one (1) unit increase in current interest rates or current foreign exchange rates upon various product types.

The Bank uses the VaR methodology in managing probable losses arising from potential changes in the market price of underlying assets. In deriving the VaR, the Bank employs the historical simulation approach, which estimates potential losses by assuming that future price movements will mimic historical trends.

The VaR methodology is a statistical estimate based on a historical simulation approach and generated from a historical database. It is important to note that VaR is only an estimate of maximum potential loss given a level of confidence. It can be based on historical data, which may not necessarily replicate itself in the future, or be computed from randomly generated numbers. As such, VaR cannot predict losses with 100% confidence.

The VaR will be based on a 1-day holding period, a level of confidence of 99% and a time series equivalent to 500 days (or 2 years). The level of confidence can be adjusted in response to heightened volatility in the market.

The following are the VaR statistics (in millions):

	2013		
	Foreign Exchange	**Fixed Income**	**Total VaR**
December 31	**P7.8**	**P14.4**	**P15.6**
Average Daily	**5.6**	**13.7**	**15.1**
Highest	**33.8**	**48.3**	**48.2**
Lowest	**0.2**	**1.3**	**2.5**

	2012		
	Foreign Exchange	Fixed Income	Total VaR
December 31	P0.7	P9.6	P10.3
Average Daily	4.6	26.8	26.4
Highest	14.4	83.4	81.5
Lowest	0.1	1.1	1.6

	2011		
	Foreign Exchange	Fixed Income	Total VaR
December 31	P0.7	P1.2	P3.2
Average Daily	2.5	16.4	15.4
Highest	15.8	46.3	43.4
Lowest	0.1	1.1	1.8

The Fixed Income column comprises both Peso and Dollar bonds.

The highs and lows of the total portfolio may not equal the sum of the individual components as the highs and lows 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, considers the correlation effects between the two risks. Annually, the BOD sets the VaR limit for the trading books to which compliance is reviewed daily by Risk Management.

The model's validity is assessed daily via back-testing. The back testing is an ex-post comparison of the VaR generated by the model against actual daily changes in portfolio value over longer periods of time. Based on 99% coverage with 250 observations, the number of times that the daily losses exceed the VaR estimates is the number of "exceptions". The higher the exception number suggests a more significant problem with the quality or accuracy of the model, and hence more regulatory capital is required.

Market risk positions are also subject to daily stress tests to ensure that the Bank could withstand an extreme event. Historical events considered for stress testing represent crises - political or economic - which impacted greatly and adversely the financial markets.

Foreign Exchange Risk

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2013, 2012 and 2011. Included in the tables are the Bank's assets and liabilities at carrying amounts, categorized by currency (in thousands):

	2013			2012 (As restated - see Note 29)			2011 (As restated - see Note 29)		
	USD	**Others**	**Total**	USD	Others	Total	USD	Others	Total
Assets									
Loans and receivables									
Cash and other cash items	**P76,321**	**P2,730**	**P79,051**	P38,298	P -	P38,298	P35,396	P -	P35,396
Due from BSP and other banks	**1,907,856**	**44,993**	**1,952,849**	388,030	21,399	409,429	4,597,132	43,171	4,640,303
Interbank loan receivable	**631,543**	**-**	**631,543**	-	-	-	87,680	4,256	91,936
Financial assets at FVPL	**320,595**	**-**	**320,595**	556,159	-	556,159	52,444	-	52,444
AFS investments	**432,747**	**-**	**432,747**	1,113,825	-	1,113,825	629,750	-	629,750
HTM investments	**209,508**	**-**	**209,508**	198,719	-	198,719	156,499	-	156,499
Loans and discounts - net	**5,018,705**	**-**	**5,018,705**	3,409,716	-	3,409,716	2,299,287	-	2,299,287
Other assets	**-**	**-**	**-**	2,796	-	2,796	637	9,731	10,368
	8,597,275	**47,723**	**8,644,998**	5,707,543	21,399	5,728,942	7,858,825	57,158	7,915,983
Liabilities									
Other financial liabilities at amortized cost									
Deposit liabilities	**5,416,449**	**6,453**	**5,422,902**	4,908,556	570	4,909,126	6,529,646	8,376	6,538,022
Financial liabilities at FVPL	**1,587**	**-**	**1,587**	3,600	113	3,713	26	-	26
Bills payable	**2,974,465**	**-**	**2,974,465**	1,929,350	-	1,929,350	1,096,000	-	1,096,000
Outstanding acceptances	**16,575**	**-**	**16,575**	7,318	2,113	9,431	1,381	-	1,381
Accrued interest and other expenses	**7,332**	**-**	**7,332**	5,720	-	5,720	5,627	-	5,627
Other liabilities	**10,451**	**1**	**10,452**	17,343	-	17,343	12,212	28	12,240
	8,426,859	**6,454**	**8,433,313**	6,871,887	2,796	6,874,683	7,644,892	8,404	7,653,296
Net Exposure	**P170,416**	**P41,269**	**P211,685**	(P1,164,344)	P18,603	(P1,145,741)	P213,933	P48,754	P262,687

Information relating to the Bank's currency derivatives is contained in Note 27. The Bank has outstanding foreign currency spot transactions (in equivalent peso amounts) of P0.6 billion (sold) and P0.9 billion (bought) as of December 31, 2013, P0.3 billion (sold) and P1.1 billion (bought) as of December 31, 2012, and P1.5 billion (sold) and P1.2 billion (bought) as of December 31, 2011.

Foreign exchange factor sensitivities ("FX Delta") represent the change in the net present value of the foreign exchange portfolios caused by a unit shift of 100% of the underlying currency's exchange rate. The FX Delta risk comes from the FX exposure of derivatives, the hedging of foreign exchange positions and foreign currency cash positions.

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

Foreign currency liabilities generally consist of foreign currency deposits in the Bank's FCDU. Foreign currency 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 liabilities with the foreign currency assets held through FCDUs. The BSP also requires a 30% liquidity reserve on all foreign currency liabilities held through FCDUs.

Outside the FCDU, the Bank has additional foreign currency assets and liabilities in the RBU representing trade assets and corresponding foreign currency borrowings.

Interest Rate Risk

Interest rate risk is the risk to future earnings or equity arising from the movement of interest rates. Changes in interest rates affect: (1) the Bank's earnings by changing its net interest income (NII) and the level of other interest rate-sensitive income; and (2) the underlying economic value of the Bank's assets, liabilities and off-balance sheet instruments by means of reducing the present value of future cash flows (and in some cases, the cash flows themselves).

As the primary interest rate risk management unit, the Liquidity and Balance Sheet Management Unit adjusts the repricing structure of assets and liabilities to ensure that interest rate risk exposure stays within a controllable range. Limits on the change in one-year earnings (delta NII) and economic value of equity (EVE) given a one basis point change in interest rates are also established.

The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. Accordingly, limits on interest rate gaps for stipulated periods have been established by management.

The tables below show the sensitivity of the Bank's one-year earnings and economic value of equity to possible changes in interest rates as of December 31, 2013, 2012 and 2011. The sensitivity of equity to interest rate movements is the present value of future cash flows discounted at the market rate.

		2013									
		Sensitivity of	Sensitivity of Equity								
Currency	Increase in bps	Net Interest Income	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up	Total
					(In Thousand Pesos)						
PHP	15	P2,297	(P577)	P59	P4,306	(P2,345)	(P5,737)	(P173)	P -	P -	(P4,467)
(in 000s)	20	3,063	(769)	79	5,739	(3,125)	(7,644)	(230)	-	-	(5,950)
	25	3,828	(961)	98	7,172	(3,905)	(9,548)	(287)	-	-	(7,431)
USD	15	722	(92)	(271)	1,569	172	580	199	-	(5,308)	(3,151)
(in 000s)	20	962	(123)	(361)	2,091	230	773	265	-	(7,053)	(4,178)
	25	1203	(153)	(451)	2,612	287	965	331	-	(8,786)	(5,195)

		2013									
		Sensitivity of	Sensitivity of Equity								
Currency	Decrease in bps	Net Interest Income	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up	Total
					(In Thousand Pesos)						
PHP	-15	(P2,297)	P578	(P59)	(P4,316)	P2,352	P5,762	P174	P -	P -	P4,491
(in 000s)	-20	(3,063)	771	(79)	(5,757)	3,137	7,689	232	-	-	5,993
	-25	(3,828)	964	(98)	(7,198)	3,923	9,618	291	-	-	7,500
USD	-15	(722)	92	271	(1,572)	(173)	(583)	(201)	-	5,420	3,254
(in 000s)	-20	(962)	123	362	(2,097)	(231)	(777)	(268)	-	7,252	4,364
	-25	(1,203)	154	453	(2,622)	(288)	(972)	(335)	-	9,096	5,486

		2012									
		Sensitivity of	Sensitivity of Equity								
Currency	Increase in bps	Net Interest Income	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up	Total
					(In Thousand Pesos)						
PHP	15	P3,615	(P397)	(P445)	P3,092	(P2,269)	(P4,882)	(P172)	P -	(P3,104)	(P8,177)
(in 000s)	20	4,820	(529)	(593)	4,121	(3,024)	(6,504)	(230)	-	(4,108)	(10,867)
	25	6,025	(661)	(741)	5,149	(3,778)	(8,124)	(287)	-	(5,099)	(13,541)
USD	15	(1,761)	167	(157)	1,024	8	258	887	-	(13,177)	(10,990)
(in 000s)	20	(2,348)	223	(209)	1,365	11	344	1,181	-	(17,498)	(14,583)
	25	(2,935)	278	(261)	1,705	13	430	1,475	-	(21,783)	(18,143)

		2012									
		Sensitivity of	Sensitivity of Equity								
Currency	Decrease in bps	Net Interest Income	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up	Total
					(In Thousand Pesos)						
PHP	-15	(P3,615)	P398	P445	(P3,099)	P2,275	P4,903	P173	P -	P3,244	P8,339
(in 000s)	-20	(4,820)	530	594	(4,133)	3,035	6,542	231	-	4,357	11,156
	-25	(6,025)	663	743	(5,169)	3,796	8,184	289	-	5,487	13,993
USD	-15	1,761	(167)	157	(1,026)	(8)	(260)	(892)	-	13,505	11,309
(in 000s)	-20	2,348	(223)	209	(1,369)	(11)	(346)	(1,191)	-	18,081	15,150
	-25	2,935	(279)	262	(1,712)	(13)	(433)	(1,491)	-	22,695	19,029

			2011								
		Sensitivity of	Sensitivity of Equity								
	Increase	Net Interest								10 Years	
Currency	in bps	Income	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	Up	Total
						(In Thousand Pesos)					
PHP	15	P4,272	(P277)	(P749)	P2,769	(P2,147)	(P4,382)	P810	P -	(P1,169)	(P5,145)
(in 000s)	20	5,697	(369)	(999)	3,691	(2,862)	(5,839)	1,079	-	(1,547)	(6,846)
	25	7,121	(461)	(1,248)	4,612	(3,576)	(7,293)	1,348	-	(1,920)	(8,538)
USD	15	592	(136)	(66)	1,256	75	(266)	1,090	-	(7,434)	(5,481)
(in 000s)	20	790	(182)	(87)	1,674	100	(354)	1,452	-	(9,873)	(7,270)
	25	987	(227)	(109)	2,092	125	(442)	1,813	-	(12,295)	(9,043)

			2011								
		Sensitivity of	Sensitivity of Equity								
	Decrease	Net Interest								10 Years	
Currency	in bps	Income	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	Up	Total
						(In Thousand Pesos)					
PHP	-15	(P4,272)	P277	P751	(P2,776)	P2,153	P4,401	(P815)	P -	P1,221	P5,212
(in 000s)	-20	(5,697)	370	1,001	(3,702)	2,872	5,873	(1,088)	-	1,640	6,966
	-25	(7,121)	462	1,252	(4,629)	3,592	7,347	(1,361)	-	2,065	8,728
USD	-15	(592)	137	66	(1,259)	(76)	267	(1,098)	-	7,608	5,645
(in 000s)	-20	(790)	182	88	(1,679)	(101)	356	(1,465)	-	10,184	7,565
	-25	(987)	228	110	(2,099)	(126)	445	(1,833)	-	12,780	9,505

The following table sets forth the repricing gap position of the Bank (in thousands):

			2013			
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
Financial Assets						
Loans and receivables						
Cash and other cash items	**P390,642**	**P -**	**P -**	**P -**	**P -**	**P390,642**
Due from BSP	**5,903,002**	**-**	**-**	**-**	**-**	**5,903,002**
Due from other banks	**1,999,921**	**-**	**-**	**-**	**-**	**1,999,921**
Interbank loans receivable	**1,399,543**	**-**	**-**	**-**	**-**	**1,399,543**
Loans and discounts - gross	**9,632,376**	**4,678,023**	**804,492**	**1,013,685**	**562,709**	**16,691,285**
Other assets	**4,148**	**990**	**-**	**2,135**	**24,114**	**31,387**
Financial assets at FVPL						
Government debt	**-**	**-**	**-**	**-**	**862,197**	**862,197**
Derivative assets	**13,180**	**-**	**-**	**-**	**-**	**13,180**
AFS investments	**-**	**-**	**-**	**-**	**445,652**	**445,652**
HTM investments	**40,105**	**5,089**	**-**	**42,697**	**273,246**	**361,137**
Total financial assets	**19,382,917**	**4,684,102**	**804,492**	**1,058,517**	**2,167,918**	**28,097,946**
Financial Liabilities						
Financial liabilities at FVPL - derivative liabilities	**1,587**	**-**	**-**	**-**	**-**	**1,587**
Other financial liabilities at amortized cost						
Deposit liabilities						
Demand	**4,953,804**	**-**	**-**	**-**	**-**	**4,953,804**
Savings	**3,362,047**	**-**	**-**	**-**	**-**	**3,362,047**
Time	**4,045,523**	**3,669,717**	**1,205,093**	**183,725**	**-**	**9,104,058**
Bills payable and outstanding acceptances	**2,991,040**	**-**	**-**	**-**	**-**	**2,991,040**
Manager’s checks	**67,209**	**-**	**-**	**-**	**-**	**67,209**
Accrued interest and other expenses	**335,736**	**-**	**-**	**-**	**-**	**335,736**
Other liabilities	**784,909**	**-**	**-**	**-**	**-**	**784,909**
Total financial liabilities	**16,541,855**	**3,669,717**	**1,205,093**	**183,725**	**-**	**21,600,390**
Repricing gap	**P2,841,062**	**P1,014,385**	**(400,601)**	**P874,792**	**P2,167,918**	**P6,497,556**
Cumulative repricing gap	**P2,841,062**	**P3,855,447**	**P3,454,846**	**P4,329,638**	**P6,497,556**	**P -**

	2012 (As restated - see Note 29					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets						
Loans and receivables						
Cash and other cash items	P346,343	P -	P -	P -	P -	P346,343
Due from BSP	4,329,274	-	-	-	-	4,329,274
Due from other banks	456,846	-	-	-	-	456,846
Interbank loans receivable	-	-	-	-	-	-
Loans and discounts - gross	8,173,118	3,255,710	763,998	1,026,718	744,353	13,963,897
Other assets	2,161	-	1,672	1,117	27,483	32,433
Financial assets at FVPL						
Government debt	-	-	228	76,791	556,168	633,187
Derivative assets	2,796	-	-	-	-	2,796
AFS investments	-	-	-	-	1,340,224	1,340,224
HTM investments	1,006	-	-	-	331,690	332,696
Total financial assets	13,311,544	3,255,710	765,898	1,104,626	2,999,918	21,437,696
Financial Liabilities						
Financial liabilities at FVPL derivative - liabilities	3,714	-	-	-	-	3,714
Other financial liabilities at amortized cost						
Deposit liabilities						
Demand	4,306,942	-	-	-	-	4,306,942
Savings	2,199,745	-	-	-	-	2,199,745
Time	2,774,842	1,993,291	433,743	117,326	174,174	5,493,376
Bills payable and outstanding acceptances	1,941,482	-	-	-	-	1,941,482
Manager's checks	36,869	-	-	-	-	36,869
Accrued interest and other expenses	210,734	-	-	-	-	210,734
Other liabilities	878,736	-	-	-	-	878,736
Total financial liabilities	12,353,064	1,993,291	433,743	117,326	174,174	15,071,598
Repricing gap	P958,480	P1,262,419	P332,155	P987,300	P2,825,744	P6,366,098
Cumulative Repricing gap	P958,480	P2,220,899	P2,553,054	P3,540,354	P6,366,098	P -

	2011 (As restated - see Note 29)					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets						
Loans and receivables						
Cash and other cash items	P328,043	P -	P -	P -	P -	P328,043
Due from BSP	1,238,242	675,000	-	-	-	1,913,242
Due from other banks	4,676,566	-	-	-	-	4,676,566
Interbank loans receivable	2,717,680	4,256	-	-	-	2,721,936
Loans and discounts – gross	9,935,505	2,070,585	786,343	1,063,385	978,993	14,834,811
Other Assets	3,474	-	902	516	25,675	30,567
Financial assets at FVPL						
Government debt	-	27,244	-	7	26,237	53,488
Derivative assets	636	-	-	-	-	636
AFS investments	-	-	-	-	591,884	591,884
HTM investments	29,968	56,081	-	-	178,746	264,795
Total financial assets	18,930,114	2,833,166	787,245	1,063,908	1,801,535	25,414,968
Financial Liabilities						
Financial liabilities at FVPL - derivative liabilities	26	-	-	-	-	26
Other financial liabilities at amortized cost						
Deposit liabilities						
Demand	4,685,834	-	-	-	-	4,685,834
Savings	2,339,408	-	-	-	-	2,339,408
Time	7,576,809	2,079,699	203,529	187,028	208,333	10,255,398
Bills payable and outstanding acceptances	1,097,381	-	-	-	-	1,097,381
Manager's checks	24,679	-	-	-	-	24,679
Accrued interest and other expenses	283,832	-	-	-	-	283,832
Other liabilities	953,438	-	-	-	-	953,438
Total financial liabilities	16,961,407	2,079,699	203,529	187,028	208,333	19,639,996
Repricing gap	P1,968,707	P753,467	P583,716	P876,880	P 1,593,202	P5,775,972
Cumulative Repricing gap	P1,968,707	P2,722,174	P3,305,890	P4,182,770	P5,775,972	P -

The following table sets forth, for the period indicated, the impact of the range of reasonably possible changes in the interest rates (accounting perspective) on the profit or loss and equity:

	Impact to Profit or Loss			Impact to Equity		
	2013	2012	2011	**2013**	2012	2011
PHP Interest Rates						
Increase by 15 bps	**(P7,934,659)**	(P108,876)	P9,074,121	**P -**	(P4,137,204)	P -
Increase by 20 bps	**(10,543,101)**	(145,111)	12,098,828	**-**	(5,490,163)	-
Increase by 25 bps	**(13,133,592)**	(181,317)	15,123,535	**-**	(6,830,305)	-
Decrease by 15 bps	**8,102,144**	109,133	(9,074,121)	**-**	4,257,756	-
Decrease by 20 bps	**10,840,870**	145,569	(12,098,828)	**-**	5,704,494	-
Decrease by 25 bps	**13,598,888**	182,033	(15,123,535)	**-**	7,165,231	-
USD Interest Rates						
Increase by 15 bps	**(4,007,561)**	(13,726,013)	3,358,289	**(9,153,826)**	(34,214,285)	(10,283,685)
Increase by 20 bps	**(5,330,218)**	(18,218,916)	4,471,052	**(12,147,155)**	(45,413,502)	(13,654,705)
Increase by 25 bps	**(6,646,335)**	(22,672,538)	5,588,815	**(15,112,035)**	(56,511,747)	(16,997,761)
Decrease by 15 bps	**4,067,686**	14,091,119	(3,358,289)	**9,421,368**	35,162,479	10,545,731
Decrease by 20 bps	**5,437,108**	18,873,703	(4,471,052)	**12,622,821**	47,099,300	14,120,596
Decrease by 25 bps	**6,813,355**	23,699,817	(5,588,815)	**15,855,336**	59,146,050	17,725,778

The Bank has exposures to other currencies that are not material.

The following table provides for the average effective interest rates by period of maturity or repricing of the Bank:

	2013		
	Less than 3 Months	**3 Months to 1 Year**	**Greater than 1 Year**
Peso-denominated			
Financial Assets			
Due from BSP	**0.9%**	**-**	**-**
Due from other banks	**0.3%**	**-**	**-**
Interbank loans receivable	**1.9%**	**-**	**-**
Loans and receivables	**4.5%**	**7.5%**	**14.2%**
Financial assets at FVPL	**5.7%**	**-**	**4.9%**
AFS investments	**-**	**-**	**6.1%**
HTM investments	**6.4%**	**6.5%**	**1.4%**
Financial Liabilities			
Deposit liabilities	**0.4%**	**1.9%**	**2.6%**
Bills payable	**0.9%**	**-**	**-**
Foreign Currency-denominated			
Financial Assets			
Due from other banks	**-**	**-**	**-**
Interbank loans receivable	**0.1%**	**-**	**-**
Loans and receivables	**3.1%**	**2.2%**	**3.3%**
Financial assets at FVPL	**-**	**-**	**3.6%**
AFS investments	**-**	**-**	**3.8%**
HTM investments	**-**	**-**	**4.1%**
Financial Liabilities			
Deposit liabilities	**0.5%**	**1.0%**	**1.6%**
Bills payable	**0.1%**	**-**	**-**

	2012		
	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated			
Financial Assets			
Due from BSP	0.4%	-	-
Due from other banks	0.3%	-	-
Interbank loans receivable	1.5%	-	-
Loans and receivables	4.8%	6.2%	14.7%
Financial assets at FVPL	4.5%	1.4%	6.0%
AFS investments	-	-	5.8%
HTM investments	4.7%	5.2%	3.6%
Financial Liabilities			
Deposit liabilities	0.8%	2.2%	3.1%
Bills payable	1.9%	-	-
Foreign Currency-denominated			
Financial Assets			
Due from other banks			
Interbank loans receivable	0.5%	-	-
Financial assets at FVPL	-	-	4.0%
AFS investments	-	-	4.0%
HTM investments	-	-	4.9%
Loans and receivables	3.0%	3.5%	3.3%
Financial Liabilities			
Deposit liabilities	0.7%	1.2%	1.8%
Bills payable	0.2%	-	-

	2011		
	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated			
Financial Assets			
Due from BSP	1.1%	-	-
Due from other banks	0.3%	-	-
Interbank loans receivable	4.5%	-	-
Loans and receivables	4.8%	6.2%	14.2%
Financial assets at FVPL	1.5%	1.4%	7.0%
AFS investments	-	-	7.3%
HTM investments	2.8%	4.1%	7.1%
Financial Liabilities			
Deposit liabilities	1.2%	2.4%	3.8%
Bills payable	1.3%	-	-
Foreign Currency-denominated			
Financial Assets			
Due from other banks	-	-	-
Interbank loans receivable	0.1%	-	-
Loans and receivables	3.0%	2.8%	3.5%
Financial assets at FVPL	-	-	4.6%
AFS investments	-	-	4.8%
HTM investments	-	-	5.0%
Financial Liabilities			
Deposit liabilities	0.6%	1.4%	1.7%
Bills payable	0.8%	-	-

Prepayment Risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall. The Bank has exposures in consumer, e.g., salary loans, mortgage loans. These activities generate market risk since these loan products are inherently sensitive to changes in the level of market interest rates.

The impact on the Bank's profitability of mortgage loan prepayment risk is deemed negligible as actual prepayments were small relative to the loan portfolio.

Equity Price Risk

Equity price risk is the risk that the fair values of equity investments decrease as a result of changes in the levels of equity indices and the value of individual stocks (whether traded or not). The Bank has no significant exposure to equity price risk.

Operational Risk

Operational Risk is defined as the risk of loss arising from direct or indirect loss from inadequate internal processes, people, and systems or external events. The Direct Loss results primarily from an operational failure while the Indirect Loss relates to the impact of operational risk on other business units.

The Enterprise Wide Risk Management is responsible for establishing, overseeing and supporting the Bank's Operational Risk Management ("ORM") framework, achieved through:

- Development of policies and procedures;
- Providing guidance, support and advice in the identification, management and control of operational risks;
- Providing training of ORM practices and processes, and support the building of an appropriate risk management culture;
- Ensure that the Bank meets BSP Basel II and Parent Bank's ORM requirements and the timely roll-out of Operational risk initiatives; and
- Objective and critical monitoring and reporting of Operational Risk activities, risk profiles and risk mitigation.

Operational Risk Process

To ensure that all operational risks of the different Business and Functional Units are reported and properly managed, the Bank promotes the Operational Risk Process Cycle to have a periodic risk process assessment.

The Bank requires all operating units, on a monthly basis, to formulate and use key risk indicators which represent standard measures that would indicate effectiveness operational risk management activities.

The Bank's Operational Risk Process is as follows:

Key Risk Identification Process

This involves the review of existing business processes, products and services with the aim of identifying vulnerabilities and assessing the extent of damage that can happen should breaches occur.

The Bank uses Key Risk Indicator (KRI) as an important tool in the identification, accessing and monitoring of operational risk. Also it established appropriate KRI items and alert levels to track operational risk exposure over time and act as early warning signals in the prevention of risk event.

Review and Document Policies and Procedures
In reviewing and documenting policies and procedures, each business and operating unit shall ensure clear and complete documentation of the following:

- Processes - Include all functions that are being done to ensure complete delivery of the transaction. This covers both client interface processes and internal control.

- People - Identify everyone involved in the process, their duties and responsibilities and required competencies.

- Reports - Identify those that would be needed to assess risk management effectiveness.

- Methodologies - Detail the tools and activities that would support decision making for critical areas of the process.

- Systems and Data - Cite the system and data requirement for the business unit to efficiently manage reports and methodologies employed.

All Business and Operating Units shall ensure that actual practices are consistent with documented policies and procedures.

Monitor and Formulate Action Plan
Monitoring and Formulating Action Plans against established standards, via the KRIs is an important component in ensuring that these standards are met. There are three units involved in the over-all formulation and monitoring of action plans for all Business and Functional Units.

- Business and Functional Units - They are expected to report the operational exceptions, deviations on the policies and procedures and deficiencies on the documentations and process.

- Enterprise Wide Risk Management Department (EWRMD) - Collates and consolidates the reports from the different business and operating units. They are also responsible for monitoring, analyzing and reporting operational risk losses and exposures to Management.

- Internal Audit Department (IAD) - Primarily responsible for ensuring that all Operations Units are in compliance with the set of policies and procedures (P and P). They should be able to provide an independent opinion on the effectiveness of established internal controls.

Management Oversight
On a monthly basis the Operations Committee convenes to discuss operational risk issues. This is presided by the President with the following members: Chief Risk Officer, Enterprise-wide Risk Officer, Information Security Officer, and Heads of Institutional Credit Risk Management Group, Retail Credit Risk Management Group, Institutional Banking Group, Retail Banking Group, Trust Department, Finance and Corporate Affairs, Information Technology, Banking Operations Group, Service Quality and Process Management, Internal Audit and Compliance.

Regulatory and proposed economic capital allocations using the Operational Risk Self Assessment will be presented to the Senior Management and the Board of Directors on an annual basis for approval.

Strategic Risk

Strategic risk is the risk that the current and prospective earnings or capital will be adversely impacted because of business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This definition gives importance to business planning, where business decisions and its implementation are derived from.

The strategic risk of the Bank is a function of the compatibility of its strategic goals, the quality of carrying out its implementation, and building the infrastructure to meet such goals.

Strategic risk is managed throughout the Bank and is primarily monitored by Finance and Corporate Affairs Unit through budget analysis and variances.

Legal Risk

Legal risks belong to non-quantifiable risks that are not subject to specific numerical measurements but likewise require similar management attention. While unpredictable, non-quantifiable risks may cause severe impact of the Bank's statements of income. These risks are mitigated by developing a strong control culture, an organizational structure that is risk-aware, and an effective internal control system that continually monitors and updates processes and procedures.

Legal risks include the potential for the Bank to suffer a financial loss due to non-existent, incomplete, incorrect and/or unenforceable documentation used by the Bank to protect and enforce its rights under contracts and obligations. This risk is closely related to credit risk as it most often involves legal problems with counterparties to the Bank's transactions. It is also closely related to other non-quantifiable risks that have to be assessed: fiduciary, reputational risk and regulatory risk.

A legal review process is the primary control mechanism for legal risks and shall be part of every product program or process of the Bank. The review aims to validate the existence, propriety and enforceability of documents, and verify the capacity and authority of counterparties and customers to enter into transactions.
The Bank's Legal Department is the primary unit assigned to identify, assess, manage and monitor the Bank's legal risk.

Capital Management

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

The Bank considers its paid-in capital and retained earnings as its core economic capital.

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 to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of RAP which differ from PFRS in some respects.

The BSP sets and monitors compliance to minimum capital requirements for the Bank. In implementing current capital requirements, BSP issued Circular 538 which implemented the Revised Risk-Based Capital Adequacy Framework under Basel II effectively July 1, 2007. It requires the Bank to maintain a prescribed risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk-weighted assets) of not less than 10.0%. The Bank is also required to maintain a minimum Tier 1 capital ratio of 6.0% (in millions).

Shown below are the Bank's minimum capital-to-risk assets ratios as reported to the BSP as of December 31, 2013, 2012 and 2011 (in millions except for percentages).

	2013	2012	2011
Tier 1 capital	**P6,246**	P6,024	P5,642
Tier 2 capital	**190**	149	164
Gross qualifying capital	**6,436**	6,173	5,806
Less: Required deductions	**-**	-	20
Total qualifying capital	**P6,436**	P6,173	P5,786
Risk-weighted assets	P24,759	P20,091	P19,872
Tier 1 capital ratio	25.2%	30.0%	28.4%
Tier 2 capital ratio	0.8%	0.7%	0.8%
Risk-based capital adequacy ratio	26.0%	30.7%	29.1%

The impact of the restatements as discussed in Note 29 are not material in the Bank's calculation of its minimum capital-to-risk assets ratios.

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

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

BASEL III

On December 13, 2013, the BSP issued Circular 822 on amendments to the capital framework of foreign bank branches. It provides that the minimum capital required for locally incorporated subsidiaries of foreign banks shall be the same as that prescribed by the Monetary Board for domestic banks of the same category under Circular 781 issued last January 15, 2013.

The following are the revised minimum capital requirements:

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

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

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

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

Circular 822 takes effect January 1, 2014. All foreign bank branches shall conduct capital assessment to determine compliance with the new capital requirements.

6. Fair Value Measurement

The methods and assumptions used by the Bank in estimating the fair value of the financial assets and financial liabilities are:

Cash and Other Cash Items, Due from BSP and Other Banks
Carrying amounts approximate fair values due to their short-term nature.

Debt Securities
Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity Securities
Fair values of unquoted equity investments approximate carrying amounts (cost less allowance for impairment losses) due to the unpredictable nature of future cash flows and lack of suitable methods of arriving at reliable fair value.

Derivative Instruments
Derivative products are valued using valuation techniques with market observable inputs including foreign exchange rates and interest rate curves prevailing at the statements of financial position date. For cross-currency swaps and foreign exchange contracts, discounted cash flow model is applied. This valuation method discounts each cash flow of the derivatives at a rate that is dependent on the tenor of the cash flow.

Loans and Receivables
Fair values of loans subject to periodic interest repricing of more than one year are estimated based on the discounted cash flow methodology using the loan's latest interest rate. Carrying values of loans subject to periodic interest repricing of one year or less approximate fair value because of recent and regular repricing based on market conditions.

Deposit Liabilities
Carrying amounts of demand and savings deposit approximate fair values considering that these are currently due and demandable. Fair values of time deposits are estimated based on discounted cash flow methodology using the Bank's latest interest rates.

Other Financial Liabilities
Carrying values of liabilities, other than deposit liabilities approximates fair values due to their short-term nature.

The following table presents a comparison of the carrying amounts and fair values of all of the Bank's financial assets and liabilities.

	2013		2012		2011 (As restated - see Note 29)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets						
Loans and receivables						
Cash and other cash items	**P390,642,012**	**P390,642,012**	P346,343,327	P346,343,327	P328,042,939	P328,042,939
Due from BSP	**5,903,001,639**	**5,903,001,639**	4,329,274,097	4,329,274,097	1,913,242,125	1,913,242,125
Due from other banks	**1,999,920,727**	**1,999,920,727**	456,845,726	456,845,726	4,676,565,861	4,676,565,861
Interbank loans receivable	**1,399,543,292**	**1,399,543,292**	-	-	2,721,935,658	2,721,935,658
Loans and discounts - net						
Institutional banking	**9,639,263,083**	**9,639,263,080**	6,592,415,432	6,592,443,960	7,154,191,676	7,154,191,676
Retail banking	**3,277,879,030**	**3,096,677,307**	3,270,567,917	3,067,207,233	3,075,520,982	2,895,405,113
Mortgage banking	**1,836,619,787**	**1,822,193,099**	1,777,984,018	1,734,105,683	1,965,293,923	1,956,622,223
Small business loans	**601,943,725**	**601,943,725**	609,831,243	609,802,714	637,733,931	637,559,676
Accrued interest receivable	**130,239,870**	**130,239,870**	135,399,889	135,399,889	135,582,070	135,309,349
Other receivables	**396,176,451**	**422,251,730**	566,013,452	656,346,957	674,641,459	661,839,837
Unquoted debt securities	**344,573,256**	**344,573,256**	577,425,205	577,425,205	761,354,230	759,028,454
Other assets	**31,386,993**	**31,386,993**	32,433,411	32,433,411	30,567,230	30,567,230
Subtotal	**25,951,189,865**	**25,781,636,730**	18,694,533,717	18,537,628,202	24,074,672,084	23,870,310,141
Financial assets at FVPL						
Held-for-trading						
Government debt	**862,196,973**	**862,196,973**	633,186,613	633,186,613	52,487,714	52,487,714
Derivative assets	**13,180,474**	**13,180,474**	2,795,889	2,795,889	636,506	636,506
Subtotal	**875,377,447**	**875,377,447**	635,982,502	635,982,502	53,124,220	53,124,220
AFS investments						
Government debt	**432,747,443**	**432,747,443**	1,327,239,383	1,327,239,383	579,012,196	579,012,196
Unquoted equity securities	**12,904,317**	**12,904,317**	12,984,317	12,984,317	12,872,317	12,872,317
Subtotal	**445,651,760**	**445,651,760**	1,340,223,700	1,340,223,700	591,884,513	591,884,513
HTM investments						
Government debt	**361,137,602**	**359,009,516**	332,696,411	350,721,975	264,795,279	281,463,651
	P27,633,356,674	**P27,461,675,453**	P21,003,436,330	P20,864,556,379	P24,984,476,096	P24,796,782,525

Forward

	2013		2012		2011 (As restated - see Note 29)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities						
Financial liabilities at FVPL						
Derivative liabilities	**P1,586,735**	**P1,586,735**	P3,713,623	P3,713,623	P26,169	P26,169
Other financial liabilities at amortized cost						
Deposit liabilities						
Demand	**4,953,804,229**	**4,953,804,229**	4,306,942,401	4,306,942,401	4,685,833,626	4,685,833,626
Savings	**3,362,047,487**	**3,362,047,487**	2,199,744,647	2,199,744,647	2,339,407,911	2,339,407,911
Time	**9,104,057,182**	**9,104,057,182**	5,493,376,167	5,493,376,167	10,255,397,512	10,255,397,512
Subtotal	**17,421,495,633**	**17,421,495,633**	12,003,776,838	12,003,776,838	17,280,665,218	17,280,665,218
Bills payable	**2,974,465,000**	**2,974,465,000**	1,929,350,000	1,929,350,000	1,096,000,000	1,096,000,000
Outstanding acceptances	**16,575,086**	**16,575,086**	12,132,312	12,132,312	1,380,960	1,380,960
Manager's checks	**67,208,676**	**67,208,676**	36,868,551	36,868,551	24,679,175	24,679,175
Accrued interest and other expenses	**335,735,625**	**335,735,625**	210,734,127	210,734,127	283,831,638	283,831,638
Other liabilities	**784,909,024**	**784,909,024**	878,736,241	878,736,241	953,438,199	953,438,199
	P21,600,389,044	**P21,600,389,044**	P15,071,598,069	P15,071,598,069	P19,639,995,190	P19,639,995,190

Due from BSP includes lending to the Bangko Sentral ng Pilipinas (BSP) under reverse repurchase agreement amounting to nil as of December 31, 2013 and 2012 and P2.6 billion as of December 31, 2011.

The following ranges of discount rates were used in estimating the fair values of unquoted fixed-rate and floating-rate debt instruments:

	2013			
	USD		**PHP**	
	High	**Low**	**High**	**Low**
Unquoted debt securities	**-**	**-**	**-**	**-**
Loans and discounts				
Retail banking	**-**	**-**	**5.2%**	**2.9%**
Mortgage banking	**-**	**-**	**13.0%**	**5.8%**
Small business loans	**-**	**-**	**-**	**-**
Deposit liabilities - Time	**2.13%**	**2.04%**	**2.90%**	**2.23%**

	2012			
	USD		PHP	
	High	Low	High	Low
Unquoted debt securities	-	-	-	-
Loans and discounts				
Retail banking	-	-	5.8%	3.0%
Mortgage banking	-	-	11.8%	5.3%
Small business loans	-	-	-	-
Deposit liabilities - Time	2.1%	2.0%	5.8%	2.0%

	2011			
	USD		PHP	
	High	Low	High	Low
Unquoted debt securities	2.0%	2.0%	-	-
Loans and discounts				
Retail banking	-	-	5.7%	3.7%
Mortgage banking	-	-	13.0%	8.8%
Small business loans	-	-	13.0%	13.0%
Deposit liabilities - Time	2.0%	2.1%	3.2%	6.4%

The following table shows financial instruments recognized at fair value, analyzed by bases of fair value (in thousands):

- Level 1 - quoted market prices in active markets for identical assets or liabilities; when fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

- Level 2 - those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); for all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models; and

- Level 3 - those with inputs for the asset or liability that are not based on observable market data (unobservable inputs). Instruments included in Level 3 are those for which there are currently no active market.

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets at FVPL				
Government debt	**P862,197**	**P -**	**P -**	**P862,197**
Derivative assets	**-**	**13,180**	**-**	**13,180**
AFS Investments				
Government debt	**432,891**	**-**	**-**	**432,891**
Clubshares	**-**	**416**	**-**	**416**
	P1,295,088	**P13,596**	**P -**	**P1,308,684**
Financial Liabilities at FVPL				
Derivative Liabilities	**P -**	**P1,587**	**P -**	**P1,587**

	2012			
	Level 1	Level 2	Level 3	Total
Financial Assets at FVPL				
Government debt	P633,187	P -	P -	P633,187
Derivative assets	-	2,796	-	2,796
AFS Investments				
Government debt	1,327,239	-	-	1,327,239
Clubshares	-	400	-	400
	P1,960,426	P3,196	P -	P1,963,622
Financial Liabilities at FVPL				
Derivative Liabilities	P -	P3,714	P -	P3,714

	2011 (As restated - see Note 29)			
	Level 1	Level 2	Level 3	Total
Financial Assets at FVPL				
Government debt	P52,488	P -	P -	P52,488
Derivative assets	-	636	-	636
AFS Investments				
Government debt	629,750	-	-	629,750
Clubshares	-	288	-	288
	P682,238	P924	P -	P683,162
Financial Liabilities at FVPL				
Derivative Liabilities	P -	P26	P -	P26

The fair values of Level 2 instruments are based on broker quotes from similar contracts that are traded in an active market. These quotes reflect the actual transactions in similar instruments.

During 2013, 2012 and 2011, there were no transfers between Level 1 to Level 2 category and no transfers into and out of Level 3 fair value measurements.

7. Trading and Investment Securities

Financial assets at FVPL consist of the following:

	Note	2013	2012	2011 (As restated - see Note 29)
Held-for-trading				
Government debt securities		**P862,196,973**	P633,186,613	P52,487,714
Derivative assets	*27*	**13,180,474**	2,795,889	636,506
		P875,377,447	P635,982,502	P53,124,220

Net unrealized gain (loss) in 2013, 2012 and 2011 on revaluation to market of financial assets at FVPL amounting to (P4.5) million, (P1.9) million and (P3.9) million respectively, are included under "Trading and securities gain - net" in the statements of income.

AFS investments consist of the following:

	2013	2012	2011 (As restated - see Note 29)
Government debt securities	**P432,747,443**	P1,327,239,383	P579,012,197
Unquoted equity securities	**12,904,317**	12,984,317	12,872,316
	P445,651,760	P1,340,223,700	P591,884,513

Unquoted equity securities include investments in BANCNET, Philippine Clearing House Corporation, Banker's Association of the Philippines, Philippine Long Distance Telecommunications (PLDT) preferred shares and club shares from Orchard Golf and Country Club and Subic Bay Yacht Club Corporation.

The movements of net unrealized gains (losses) on AFS investments are as follows:

	2013	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
Balance at the beginning of the year	**P45,726,351**	P12,044,730	(P5,625,951)
Unrealized losses recognized in other comprehensive income	**(74,906,393)**	(44,512,079)	(40,059,985)
Amount realized in profit or loss	**(8,320,610)**	78,193,700	57,730,666
Balance at end of the year	**(P37,500,652)**	P45,726,351	P12,044,730

In 2013, 2012 and 2011, the effective interest rates of Philippine government securities range from 0.8% to 6.7%, 0.6% to 6.7%, and from 1.4% to 7.3%, respectively.

Effective interest rates range from 3.6% to 6.1% and from 2.5% to 5.8% for peso-denominated and foreign currency-denominated AFS investments, respectively, in 2013. Effective interest rates range from 5.9% to 6.1% and from 2.6% to 5.8% for peso-denominated and foreign currency-denominated AFS investments, respectively, in 2012. Effective interest rates range from 7.0% to 8.1% and from 4.1% to 6.7% for peso-denominated and foreign currency-denominated AFS investments, respectively, in 2011.

HTM investments consist of Philippine government treasury notes that bear nominal annual interest rates ranging from 2.0% to 6.7%, from 5.9% to 12.4% and from 2.4% to 8.0%, in 2013, 2012 and 2011, respectively.

On November 8, 2012, the BTr, as part of its country liability management exercises, launched a Buyback Invitation covering certain ROP bonds held by the Bank as HTM investments. The Bank has tendered and participated in the BTr Buyback Invitation and has complied with the conditions given by the Philippine SEC for the purpose of availing the exemptive relief from PAS 39 tainting rule.

Prior to participating with the BTr Buyback Invitation, the book value amount of the Bank's HTM Investment was USD3.5 million (P142.6 million). On November 15, 2012, the Bank tendered ROP bonds with total notional amount of USD2 million, with total cash proceeds amounting to USD2.4 million received on November 27, 2012.

On December 4, 2012, the Bank disclosed to the Philippine SEC the purchase of replacement ROP bonds classified as HTM investments with total notional and cash settlement amounts of USD2 million and USD3.6 million, respectively. The replacement ROP bond purchase price was settled on December 7, 2012. Immediately after the acquisition of the replacement ROP bonds, the book value amount of the Bank's HTM investments stood at USD4.8 million (P198.5 million).

As a result of participating in the BTr Buyback Invitation, the Bank's day 1 difference amounted to USD0.2 million (P6.4 million), which was not recognized in the statements of income but was instead deferred and will be amortized over the remaining term of the newly-purchased replacement ROP bond, in accordance with the Philippine SEC requirements. Amortization began in January 2013.

Had the Bank not complied in full with the conditions given by Philippine SEC, the Bank's HTM Investment portfolio would have been tainted under PAS 39, and as such, the Bank will have to reclassify its entire HTM Investment holdings with total carrying value of P332.7 million to AFS investments to be carried at fair value amounting to P350.7 million, with unrealized fair value changes recognized in "Net unrealized gain on available-for-sale investments" in equity, amounting to P18.0 million as of December 31, 2012, and net income before tax of the Bank would have increased by P6.4 million.

As of December 31, 2013, 2012 and 2011, the carrying value of HTM investments amounted to P361.1 million, P332.7 million and P264.8 million, respectively.

Interest income on trading and investment securities consists of:

	2013	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
Financial assets at FVPL	**P64,371,021**	P89,574,003	P100,073,392
AFS investments	**36,728,944**	34,780,694	47,755,533
HTM investments	**13,190,498**	11,877,351	12,814,752
	P114,290,463	P136,232,048	P160,643,677

Trading and securities gain - net consists of:

	2013	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
Financial assets at FVPL	**P165,588,476**	P187,668,053	P257,840,721
AFS investments	**(8,320,610)**	78,193,701	57,730,666
	P157,267,866	P265,861,754	P315,571,387

Net loss on derivative transactions amounting to P1.4 million, P4.2 million, and P1.8 million in 2013, 2012 and 2011, respectively, are included under "Foreign exchange gain (loss) - net" in the statements of income.

8. Loans and Receivables

This account consists of:

	Note	**2013**	2012	2011 (As restated - see Note 29)
Loans and discounts				
Institutional banking		**P9,664,647,688**	P6,603,031,322	P7,188,824,474
Retail banking		**3,563,732,239**	3,533,813,449	3,320,179,726
Mortgage banking		**1,866,048,387**	1,795,304,637	1,992,731,311
Small business loans		**603,632,894**	611,520,412	639,446,705
Accrued interest receivable		**138,493,941**	143,715,683	142,353,600
Other receivables		**501,110,615**	683,025,747	763,627,633
		16,337,665,764	13,370,411,250	14,047,163,449
Unquoted debt securities		**353,619,433**	593,485,861	787,647,945
		16,691,285,197	13,963,897,111	14,834,811,394
Unearned interest discount and capitalized interest		**(43,958,741)**	(28,685,388)	(46,351,751)
		16,647,326,456	13,935,211,723	14,788,459,643
Allowance for impairment and credit losses	*12*	**(420,631,254)**	(405,574,567)	(384,141,372)
		P16,226,695,202	P13,529,637,156	P14,404,318,271

Institutional loans and Small Business loans include domestic bills purchased amounting to P122.0 million, P184.2 million and P176.0 million as of December 31, 2013, 2012 and 2011, respectively (see Note 16).

Other receivables include due from Integrated Credit and Corporate Services (ICCS) and Philippine Veterans Bank (PVB) representing impaired loans amounting to P202.1 million, P343.7 million and P323.9 million as of December 31, 2013, 2012 and 2011, respectively, which are secured by real properties transferred to ICCS and PVB.

Other receivables also include sales contract receivables amounting to P116.3 million, P110.5 million and P85.4 million as of December 31, 2013, 2012 and 2011 respectively, which bear fixed interest rates per annum ranging from 8.0% to 12.0% in 2013 and 2012, respectively, and from 8.5% to 12% in 2011.

Unquoted debt securities represent private and government bonds not quoted in an active market. These investments are classified as loans and receivables in accordance with PAS 39.

Interest income on loans and receivables consists of:

	2013	2012	2011
Retail banking	**P925,131,252**	P939,348,382	P914,783,235
Institutional banking	**323,461,699**	328,515,515	354,827,036
Mortgage banking	**128,734,394**	147,101,561	174,795,285
Small business loans	**30,079,436**	30,557,265	31,340,282
Unquoted debt securities	**15,064,904**	29,910,503	43,777,105
Other receivables	**2,800,637**	2,631,584	2,308,501
	P1,425,272,322	P1,478,064,810	P1,521,831,444

The effective interest rates of Loans and discounts, Unquoted debt instruments and Sales contract receivables range from 2.6% to 3.2%, from 2.8% to 4.0% from 2.6% to 4.9% in 2013, 2012 and 2011, respectively, for foreign currency-denominated receivables and from 9.3% to 15.0%, from 11.5% to 14.7%, from 11.0% to 14.3% in 2013, 2012 and 2011, respectively, for peso-denominated receivables.

The Bank's loan portfolio includes non-risk loans, as defined under BSP regulations, totaling P588.5 million, P501.2 million and P1.7 billion as of December 31, 2013, 2012 and 2011, respectively.

As of December 31, 2013, 2012 and 2011, 20.0%, 25.8% and 21.8%, respectively, of the total loans of the Bank are subject to periodic interest repricing. Remaining loans earn annual fixed interest rates ranging from 2.0% to 37.5%, from 2.0% to 41.5%, and from 2.0% to 41.5% in 2013, 2012 and 2011, respectively, for peso-denominated loans and from 1.6% to 5.4%, from 1.4% to 5.4%, and from 2.0% to 5.4% for foreign currency-denominated loans, respectively.

Interest income accrued on loans and receivables includes unwinding of the allowance for impairment and credit losses amounting to nil, P0.5 million and P0.1 million as of December 31, 2013, 2012 and 2011, respectively.

9. Property and Equipment

The composition and movements of this account is as follows:

	2013					
	Bank Premises	**Computer Equipment**	**Transportation Equipment**	**Furniture, Fixtures and Equipment**	**Leasehold Rights and Improvements**	**Total**
Cost						
Balance at beginning of year	**P73,554,360**	**P166,571,255**	**P78,034,450**	**P93,399,850**	**P341,846,823**	**P753,406,738**
Additions	**1,000,000**	**10,202,245**	**20,481,596**	**1,366,031**	**12,529,187**	**45,579,059**
Disposals	**(32,900)**	**(13,038,432)**	**(16,217,436)**	**(11,704,929)**	**(18,001,799)**	**(58,995,496)**
Balance at end of year	**74,521,460**	**163,735,068**	**82,298,610**	**83,060,952**	**336,374,211**	**739,990,301**
Accumulated Depreciation and Amortization						
Balance at beginning of year	**29,208,969**	**137,823,499**	**41,227,062**	**73,857,982**	**269,849,010**	**551,966,522**
Depreciation and amortization	**3,154,721**	**19,523,996**	**14,751,639**	**8,017,274**	**32,981,664**	**78,429,294**
Disposals	**(32,899)**	**(12,383,556)**	**(13,642,238)**	**(11,059,510)**	**(17,936,067)**	**(55,054,270)**
Balance at end of year	**32,330,791**	**144,963,939**	**42,336,463**	**70,815,746**	**284,894,607**	**575,341,546**
Net Book Value at End of Year	**P42,190,669**	**P18,771,129**	**P39,962,147**	**P12,245,206**	**P51,479,604**	**P164,648,755**

	2012					
	Bank Premises	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Cost						
Balance at beginning of year	P71,554,360	P175,561,345	P80,344,617	P96,843,087	P330,690,597	P754,994,006
Additions	2,000,000	15,247,922	15,359,552	1,077,955	11,306,767	44,992,196
Disposals	-	(24,238,012)	(17,669,719)	(4,521,192)	(150,542)	(46,579,465)
Balance at end of year	73,554,360	166,571,255	78,034,450	93,399,850	341,846,822	753,406,737
Accumulated Depreciation and Amortization						
Balance at beginning of year	26,200,580	137,656,423	36,650,782	69,981,601	237,815,843	508,305,229
Depreciation and amortization	3,008,389	23,272,611	14,543,189	8,389,945	32,033,167	81,247,301
Disposals	-	(23,105,535)	(9,966,909)	(4,513,564)	-	(37,586,008)
Balance at end of year	29,208,969	137,823,499	41,227,062	73,857,982	269,849,010	551,966,522
Net Book Value at End of Year	P44,345,391	P28,747,756	P36,807,388	P19,541,868	P71,997,812	P201,440,215

	2011					
	Bank Premises	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Cost						
Balance at beginning of year	P68,634,360	P157,397,130	P73,416,507	P92,135,396	P295,481,021	P687,064,414
Additions	2,920,000	24,338,197	21,548,106	7,383,998	35,449,495	91,639,796
Disposals	-	(6,173,982)	(14,619,996)	(2,676,307)	(239,919)	(23,710,204)
Balance at end of year	71,554,360	175,561,345	80,344,617	96,843,087	330,690,597	754,994,006
Accumulated Depreciation and Amortization						
Balance at beginning of year	23,252,459	124,878,527	30,416,707	62,252,455	196,508,422	437,308,570
Depreciation and amortization	2,948,121	18,951,658	14,719,134	10,283,766	41,544,396	88,447,075
Disposals	-	(6,173,762)	(8,485,059)	(2,554,620)	(236,975)	(17,450,416)
Balance at end of year	26,200,580	137,656,423	36,650,782	69,981,601	237,815,843	508,305,229
Net Book Value at End of Year	P45,353,780	P37,904,922	P43,693,835	P26,861,486	P92,874,754	P246,688,777

10. Investment Properties

The Bank's investment properties consist of condominium units. Movements in this account in 2013, 2012 and 2011 follow:

	2013	2012	2011
Cost			
Balance at beginning of year	**P4,756,110**	P4,428,000	P5,995,370
Additions	**13,263,500**	328,110	9,448,000
Disposals	**-**	-	(11,015,370)
Balance at end of year	**18,019,610**	4,756,110	4,428,000
Accumulated Depreciation			
Balance at beginning of year	**217,741**	90,367	3,111,197
Depreciation	**221,139**	127,374	131,645
Disposals	**-**	-	(3,152,475)
Balance at end of year	**438,880**	217,741	90,367
Allowance for Probable Losses	**-**	110,368	-
Net Book Value at End of Year	**P17,580,730**	P4,428,001	P4,337,633

The Bank does not occupy repossessed properties for business use.

The aggregate fair value of the investment properties of the Bank amounted to P18.5 million as of December 31, 2013 and P4.4 million as of 2012 and 2011, respectively. The fair value of the Bank's investment properties has been arrived at on the basis of recent sales of similar properties in the same areas and taking into account the economic conditions prevailing at the time the valuations were made. Fair value of investment properties is categorized under level 2 of the fair value hierarchy.

11. Other Assets

This account consists of:

	2013	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
Computer software costs - net	**P103,308,566**	P127,288,631	P116,049,130
Rental deposit	**30,669,358**	32,151,124	29,817,582
Prepaid expenses and other charges	**13,628,676**	24,661,563	23,484,046
Returned checks and other cash items	**717,635**	282,287	749,648
Pension Asset	**-**	19,524,299	-
Miscellaneous	**38,907,934**	19,200,253	93,367,268
	P187,232,169	P223,108,157	P263,467,674

Miscellaneous assets include software items under installation process, documentary stamps on hand, and stationery and office supplies. As of December 31, 2013, 2012 and 2011, hardware and software items under installation process amounted to P25.0 million, P10.2 million and P59.4 million, respectively.

The movements in computer software costs follow:

	2013	2012	2011
Cost			
Balance at beginning of year	**P392,483,360**	P347,383,226	P301,683,494
Additions	**10,082,639**	46,864,685	50,455,175
Disposals	**(12,006,280)**	(1,764,551)	(4,755,443)
Reclassifications	**106,374**	-	-
Balance at end of year	**390,666,093**	392,483,360	347,383,226
Accumulated Amortization			
Balance at beginning of year	**265,194,729**	231,334,096	204,672,267
Amortization	**34,168,039**	33,880,949	27,417,262
Disposals	**(12,006,241)**	(10,947)	-
Reclassifications	**1,000**	(9,369)	(755,433)
Balance at end of year	**287,357,527**	265,194,729	231,334,096
	P103,308,566	P127,288,631	P116,049,130

12. Allowance for Impairment and Credit Losses

Movements in the allowance for credit losses on loans and receivables follow:

	2013					
	Institutional Banking	**Mortgage Banking**	**Small Business Loans**	**Retail Banking**	**Other Receivables**	**Total**
Balance at beginning of year	**P8,563,728**	**P6,078,704**	**P1,689,582**	**P263,245,534**	**P125,997,019**	**P405,574,567**
Provisions for credit losses	**15,322,991**	**20,541,817**	**-**	**164,516,172**	**64,202,770**	**264,583,750**
Accounts charged off and others	**(164,893)**	**-**	**-**	**(184,331,841)**	**(65,030,329)**	**(249,527,063)**
Balance at end of year	**P23,721,826**	**P26,620,521**	**P1,689,582**	**P243,429,865**	**P125,169,460**	**P420,631,254**

	2012					
	Institutional Banking	Mortgage Banking	Small Business Loans	Retail Banking	Other Receivables	Total
Balance at beginning of year	P31,493,853	P9,848,952	P1,713,187	P244,658,746	P96,426,634	P384,141,372
Provisions for credit losses	31,005,294	(3,370,116)	222,852	150,849,953	13,361,094	192,069,077
Accounts charged off and others	(53,935,419)	(400,132)	(246,457)	(132,263,165)	16,209,291	(170,635,882)
Balance at end of year	P8,563,728	P6,078,704	P1,689,582	P263,245,534	P125,997,019	P405,574,567

	2011					
	Institutional Banking	Mortgage Banking	Small Business Loans	Retail Banking	Other Receivables	Total
Balance at beginning of year	P65,444,280	P43,816,302	P1,771,857	P980,167,125	P144,738,734	P1,235,938,298
Provisions for credit losses	6,982,771	(24,009,849)	(58,670)	235,534,630	3,990,865	222,439,747
Accounts charged off and others	(40,933,198)	(9,957,501)	-	(971,043,009)	(52,302,965)	(1,074,236,673)
Balance at end of year	P31,493,853	P9,848,952	P1,713,187	P244,658,746	P96,426,634	P384,141,372

Impairment Assessment

The Bank recognizes impairment losses based on specific (individual) and collective assessment of its credit exposures. Impairment has taken place when there is a presence of known difficulties in the servicing of cash flows by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold (e.g., 90 days). These and other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Bank in assessing and measuring impairment include:

a. Specific (Individual) Assessment

The Bank assesses each individually significant credit exposure or advances for any objective evidence of impairment, and where such evidence exists, accordingly calculates the required impairment.

The Bank uses the incurred loss method when recognizing loss on impaired financial asset, consistent with the requirement of PAS 39. Impairment is identified when an objective evidence of a specific loss event has been observed. Observable data that will trigger an impairment may include any of the following: (a) significant financial difficulty of the issuer or obligor, (b) default or delinquency in interest or principal payments, (c) probability that the borrower may enter into bankruptcy or other financial reorganization, (d) disappearance of an active market for that asset because of financial difficulties, (e) and other factors that may result to losses. In general, but not limited to, loans that are adversely classified, past due, items in litigation, and restructured, are also subjected to impairment. The impairment of the account is calculated by the comparison of the discounted estimated future cash flows against the carrying value of the loan. If the sum of all discounted estimated future cash flows is less than the carrying value of the asset, then the asset would have to be written down to its total discounted future cash flows.

Nevertheless, if the impaired account is found to be not specifically impaired, then it will collectively be assessed for impairment according to its risk grouping. The impairment allowances, if any, are evaluated semi-annually or as the need arise in view of favorable or unfavorable developments.

b. Collective Assessment

Impaired loans that are not individually assessed for impairment and loans which are individually assessed for impairment but not found to be impaired, shall be included in a relevant portfolio for collective impairment testing. The collective impairment is prepared using the historical loss rates approach for mortgage loans and institutional loans and the net flow rate methodology for personal loans. A monthly portfolio review is performed to determine the appropriate allowances.

For the mortgage and institutional loans, the historical loss rates are calculated by economic industry, which is the average ratio of the loss reserves applied against the outstanding loans with a minimum of three-year period.

For personal loans, the Bank used net flow rate methodology which considers the historical movements of loan accounts to compute for probable future losses.

With the foregoing level of allowance for impairment and credit losses, management believes that the Bank has sufficient allowance to cover any losses that it may incur from the noncollection or nonrealization of its loans and receivables and other risk assets.

The breakdown of provision for (recovery from) credit losses is as follows:

	2013		
	Specific Impairment	**Collective Impairment**	**Total**
Loan and discounts	**P36,054,730**	**P164,326,250**	**P200,380,980**
Other receivables	**55,640,741**	**8,562,029**	**64,202,770**
Total	**P91,695,471**	**P172,888,279**	**P264,583,750**

	2012		
	Specific Impairment	Collective Impairment	Total
Loan and discounts	P12,463,526	P166,244,457	P178,707,983
Other receivables	(792,401)	14,153,495	13,361,094
Total	P11,671,125	P180,397,952	P192,069,077

	2011		
	Specific Impairment	Collective Impairment	Total
Loan and discounts	(P59,783,934)	P278,232,816	P218,448,882
Other receivables	(5,934,500)	9,925,365	3,990,865
Total	(P65,718,434)	P288,158,181	P222,439,747

BSP Reporting
Loan provisioning under BSP regulations hinges on the qualitative appraisal and classification of the loan. Aside from classifying loans to past due and current, these are also grouped as unclassified or classified.

These classified loans are further grouped depending on the likelihood of losses the Bank will incur. A specific percentage of outstanding balance of the loan based on its classification is set up as allowance for probable losses. The list of classifications and allowance for losses percentage include: (a) Especially mentioned (5%), (b) Substandard - secured (10%) and - unsecured (25%), (c) Doubtful (50%), (d) Loss (100%). Definitions of each classification are as follows:

I. Especially Mentioned - These are loans or portions thereof where there is an evidence of weakness in the borrower's financial condition or creditworthiness, or which are subject to an unrealistic repayment program or inadequate source of funds or where there is a lack of adequate collateral, credit, information or documentation.

II. Substandard - These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics. The normal repayment of these loans may be in jeopardy by reason of severely adverse trends or development of a financial, managerial, economic or political nature or important weakness in collateral/security position. Prompt corrective action is required to strengthen the Bank's position or to reduce its exposure and to assure that adequate remedial measures are taken by the borrower.

III. Doubtful - These are loans or portions thereof the full liquidation of which, on the basis of available information, appears questionable and suggests a degree of eventual loss may be incurred but not yet determinable as to the amount. Positive and vigorous action is required to avert or minimize loss. Non-accrual of interest is mandatory, however, memorandum tracking of interest due must be maintained. Reserves are required to be considered.

IV. Loss - 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, notwithstanding the fact that the loans may have some recovery or salvage value. The amount of loan recovery is difficult to measure and it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be obtained in the future.

In addition to the allowance for probable losses on classified loans, BSP requires a general provision to be set up on unclassified loans considered as non risk under existing guidelines, as follows: five percent (5%) allowance on the restructured loans that are unclassified and one percent (1%) general loan loss provision on all other unclassified loans.

Current bank regulations allow banks who have complied with the valuation reserve and capital adjustment requirements by the BSP to exclude those loans that are fully provided with allowance for credit losses, provided that interest on said loans shall not be accrued, from NPL classification. Accordingly, NPLs not fully covered by allowance credit losses are as follows:

	2013	2012	2011
NPLs	**P388,279,116**	P328,443,083	P350,844,140
Less NPLs fully provided with allowance for credit losses	**146,385,579**	154,295,055	139,421,469
	P241,893,537	P174,148,028	P211,422,671

13. Deposit Liabilities

As of December 31, 2013, 2012 and 2011, nil, 24.41% and 16.2%, respectively, of the total deposit liabilities of the Bank are subject to periodic interest repricing, while 3.8%, 4.3% and 3.4%, respectively, of the total deposits are noninterest-bearing. The remaining deposit liabilities earn annual fixed interest rates ranging from 0.1% to 8.0%, 0.3% to 8.6% and 0.3% to 4.8% in 2013, 2012 and 2011, respectively.

In 2011, non-FCDU deposit liabilities of the Bank are subject to liquidity reserve equivalent to 11% and statutory reserve equivalent to 10%.

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

- Unification of the statutory and liquidity reserve requirements, from 11% and 10%, respectively, to 18%;
- Required reserves shall be kept in the form of deposits placed in banks' Demand Deposit Accounts (DDAs) with the BSP;
- Exclusion of cash in vault and demand deposits as eligible form of reserve requirement compliance;
- Government securities which are used as compliance with the regular and/or liquidity reserve requirements shall continue to be eligible until they mature;
- Discontinuance of Reserve Deposit Account (RDA) facility beginning April 6, 2012; and
- Deposits maintained with the BSP in compliance with the reserve requirement no longer bear interest.

In 2013, 2012 and 2011, the Bank is in compliance with such reserve requirements regulations.

The total liquidity and statutory reserves, as reported to the BSP, are as follows:

	2013	2012	2011
Cash	**P -**	P -	P313,687,214
Due from BSP	**2,360,767,547**	1,549,561,127	1,922,154,911
	P2,360,767,547	P1,549,561,127	P2,235,842,125

Interest expense on deposit liabilities consists of:

	2013	2012	2011
Time	**P125,435,679**	P124,236,581	P172,570,994
Demand	**10,783,411**	19,389,618	43,566,479
Savings	**7,464,482**	6,671,966	8,669,326
	P143,683,572	P150,298,165	P224,806,799

14. Bills Payable

This account consists of short-term borrowings from banks and other financial institutions.

The Bank is an accredited Participating Financial Institution (PFI), as a conduit bank for Official Development Assistance Wholesale Lending Facilities managed by various government or sovereign lending institutions.

Foreign currency denominated interbank borrowings are subject to annual fixed interest rates ranging from 0.6% to 1.4%, from 0.55% to 1.25% and from 1.0% to 4.8% for the years ended December 31, 2013, 2012 and 2011, respectively.

Interest expense on bills payable amounted to P13.1 million, P5.8 million, and P6.0 million in 2013, 2012 and 2011, respectively.

15. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Note	**2013**	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
Accrued taxes and other expenses		**P243,975,150**	P192,081,302	P172,848,984
Accrued interest		**53,525,058**	34,977,757	66,150,743
Net retirement liability	*19*	**47,128,088**	-	53,801,039
		P344,628,296	P227,059,059	P292,800,766

Accrued taxes and other expenses refer to various payables for taxes and licenses, payroll, utilities and other expenses.

16. Other Liabilities

This account consists of:

	Note	**2013**	2012	2011 (As restated - see Note 29)
Accounts payable		**P660,109,292**	P690,557,706	P774,894,829
Bills purchased - contra	*8*	**121,997,447**	184,218,291	176,033,484
Withholding taxes payable		**22,396,193**	21,322,220	19,665,878
Payment order payable		**2,802,285**	3,960,244	2,509,886
Miscellaneous		**9,843,688**	8,864,570	11,528,780
		P817,148,905	P908,923,031	P984,632,857

17. Maturity Analysis of Assets and Liabilities

The following tables present the assets and liabilities as of December 31, 2013, 2012 and 2011 analyzed according to when they are expected to be recovered or settled as of the reporting date (in thousands):

	2013			2012 (As restated – See Note 29)			2011 (As restated – See Note 29)		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets									
Loans and receivables									
Cash and other cash items	**P390,642**	**P -**	**P390,642**	P346,343	P -	P346,343	P328,043	P -	P328,043
Due from BSP	**5,903,002**	**-**	**5,903,002**	4,329,274	-	4,329,274	1,913,242	-	1,913,242
Due from other banks	**1,999,921**	**-**	**1,999,921**	456,846	-	456,846	4,676,566	-	4,676,566
Interbank loans receivable	**1,399,543**	**-**	**1,399,543**	-	-	-	2,721,936	-	2,721,936
Loans and receivables - gross	**8,335,614**	**8,355,671**	**16,691,285**	6,793,198	7,170,699	13,963,897	7,216,845	7,617,966	14,834,811
Other assets	**7,273**	**24,114**	**31,387**	4,950	27,483	32,433	4,892	25,675	30,567
Subtotal	**18,035,995**	**8,379,785**	**26,415,780**	11,930,611	7,198,182	19,128,793	16,861,524	7,643,641	24,505,165
Financial assets at FVPL	**13,180**	**862,197**	**875,377**	79,815	556,168	635,983	27,887	25,237	53,124
AFS investments	**-**	**445,652**	**445,652**	-	1,340,224	1,340,224	-	591,884	591,884
HTM investments	**87,891**	**273,246**	**361,137**	1,006	331,690	332,696	86,048	178,747	264,795
	18,137,066	**9,960,880`**	**28,097,946**	12,011,432	9,426,264	21,437,696	16,975,459	8,439,509	25,414,968
Nonfinancial Assets									
Property and equipment	**-**	**164,649**	**164,649**	-	201,440	201,440	-	246,689	246,689
Investment properties - net	**-**	**17,581**	**17,581**	-	4,428	4,428	-	4,338	4,338
Deferred tax assets - net	**-**	**165,837**	**165,837**	-	186,214	186,214	-	282,784	282,784
Other assets	**19,402**	**136,443**	**155,845**	27,399	163,276	190,675	56,145	176,756	232,901
	19,402	**484,510**	**503,912**	27,399	555,358	582,757	56,145	710,567	766,712
	18,156,468	**10,445,390**	**28,601,858**	12,038,831	9,981,622	22,020,453	17,031,604	9,150,076	26,181,680
Less: Allowance for impairment and credit losses	**-**	**-**	**(420,631)**	-	-	(405,575)	-	-	(384,141)
Unearned discount and capitalized interest	**-**	**-**	**(43,959)**	-	-	(28,685)	-	-	(46,352)
	P18,156,468	**P10,445,390**	**P28,137,268**	P12,038,831	P9,981,622	P21,586,193	P17,031,604	P9,150,076	P25,751,187

	2013			2012 (As restated – See Note 29)			2011 (As restated – See Note 29)		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Liabilities									
Financial liabilities at FVPL									
Derivative liabilities	**P1,587**	**P -**	**P1,587**	P3,714	P -	P3,714	P26	P -	P26
Other Financial liabilities at amortized cost									
Deposit liabilities	**17,419,909**	**-**	**17,419,909**	11,926,989	73,074	12,000,063	17,176,414	104,225	17,280,639
Bills payable	**2,974,465**	**-**	**2,974,465**	1,929,350	-	1,929,350	1,096,000	-	1,096,000
Outstanding acceptances	**16,575**	**-**	**16,575**	12,132	-	12,132	1,381	-	1,381
Manager's checks	**67,209**	**-**	**67,209**	36,869	-	36,869	24,679	-	24,679
Accrued interest and other expenses	**335,736**	**-**	**335,736**	210,734	-	210,734	283,832	-	283,832
Other liabilities	**784,909**	**-**	**784,909**	878,736	-	878,736	953,438	-	953,438
	21,600,390	**-**	**21,600,390**	14,998,524	73,074	15,071,598	19,535,770	104,225	19,639,995
Nonfinancial Liabilities									
Accrued taxes	**8,893**	**-**	**8,893**	16,325	-	16,325	8,969	-	8,969
Income tax payable	**4,285**	**-**	**4,285**	8,934	-	8,934	7,895	-	7,895
Other liabilities	**32,239**	**-**	**32,240**	30,187	-	30,187	31,195	-	31,195
	45,417	**-**	**45,417**	55,446	-	55,446	48,059	-	48,059
	P21,645,807	**P -**	**P21,645,807**	P15,053,970	P73,074	P15,127,044	P19,583,829	P104,225	P19,688,054

18. Equity

Capital stock consists of the following (in thousands):

	Shares	Amount
Common stock - P10 par value		
Authorized	300,000	P3,000,000
Issued and outstanding	247,969	2,479,687

As of December 31, 2013, 2012 and 2011, the number of holders of the Bank's outstanding common shares is 104, 99 and 102, respectively.

The shares of the Bank were listed in the PSE since June 1999. In December 2000, the Parent Bank substantially increased its equity in the Bank through the acquisition of shares held by a minority group. As a result of this acquisition, the Parent Bank controlled approximately 91.0% of the Bank's capital stock compared to 57.0% prior to the acquisition. The General Banking Law of 2000 allows foreign banks to own up to 100.0% of Philippine incorporated banks, compared to 60.0% under the previous law. A further acquisition of shares held by the public representing approximately 4.0% of the Bank's equity was made by the Parent Bank in January 2001 through a tender offer at a price of P19.0 per share, the same price at which the shares from the minority group was acquired. In May 2001, the Parent Bank purchased another 4.0% of the outstanding shares at a price of P18.3 per share. As of December 31, 2013, 2012 and 2011, the Bank is 99.41% owned by the Parent Bank.

As discussed in Note 1, the Bank has filed voluntary delisting of its shares in PSE on October 7, 2011 and has officially delisted from the trading Board effective on February 24, 2012.

On November 28, 2012, the BSP issued Circular No. 775 requiring banks, which are majority-owned by foreign banks and are established in the Philippines, to list on the local stock exchanged within three years from the effectivity of the circular (which was 15 days after it was published in a newspaper of general circulation).

Circular No. 775 cited as basis the provisions of Republic Act (RA) No. 7721 or “An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for other purposes.”

Section 2 of RA No. 7721 cited the listing requirement for foreign banks that entered the country by buying as much as 60.0% of an existing bank or investing in up to 60.0% of the voting stock of a new subsidiary incorporated in the country.

As of date, the Bank is discussing internally and consulting with its Parent Bank on the Bank’s plans to comply with Circular no. 775. Details of the plan, once finalized and duly approved, shall be incorporated in the Bank’s capital management planning process. The Bank has until December 2015 to comply with the aforementioned circular.

As discussed in Note 5, the determination of the Bank’s compliance with regulatory requirements and ratios is based on the amount of the Bank’s unimpaired capital (regulatory capital) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from PFRSs in some respects. Specifically, under existing banking regulations, the combined capital accounts of each commercial bank should not be less than an amount equal to ten percent (10.0%) of its risk assets.

BSP issued Circular No. 639 dated January 15, 2009 mandates the use of ICAAP by all universal and commercial banks to determine their minimum required capital relative to their business risk exposures. The Bank considers its paid-in capital and retained earnings as its core economic capital.

At the regular meeting of the BOD held on February 23, 2012, the BOD approved the restriction of the full amount of retained earnings for the following purposes:

i.) to comply with the requirements of the ICAAP pursuant to BSP relevant requirements;

ii.) to cover the resulting treasury shares acquired in relation to the Bank’s delisting and share buyback exercise; and

iii.) to provide for buffer in preparation for BASEL III requirements.

The restriction on retained earnings relating to ICAAP and BASEL III ensure that the Bank has adequate, available qualified capital at all times to reasonably manage the significant risks identified and assessed in the ICAAP and BASEL III.

Moreover, as discussed in Note 5, BSP issued Circular No. 822 on amendments to the capital framework of foreign bank branches. It provides that the minimum capital for locally incorporated subsidiaries of foreign banks shall be the same as prescribed under Circular No. 781 for domestic banks of the same category.

The Bank’s treasury shares were acquired in relation to the Bank’s delisting and share buyback exercise in 2012. Restriction on retained earnings relating to treasury shares shall be lifted once the Bank’s treasury stock has been fully disposed of. The restriction is also to ensure full compliance with regards to the rules on treasury shares in the Corporation Code of the Philippines.

As of December 31, 2013, 2012 and 2011, retained earnings appropriated for the following purposes are as follows (amounts in thousands):

	2013	2012	2011
Treasury share acquisition	**P15,952**	P15,952	P -
Trust operations	**4,981**	4,981	4,981
Total appropriated retained earnings	**P20,933**	P20,933	P4,981

19. Retirement Plans

The Bank has a funded, noncontributory, defined benefit retirement plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method and valuations are obtained on a periodic basis. The Bank's latest actuarial valuation date is December 31, 2013.

The plan is registered with the Bureau of Internal Revenue (BIR) as tax-qualified plan under Republic Act No. 4917, as amended. The control and administration of the retirement plan is vested in the Board of Trustees (BOT). The BOT of the retirement plan exercises voting rights over the shares and approve material transactions. The retirement plan's accounting and administrative functions are undertaken by the Bank's Retirement Funds Office.

The following table shows the components of retirement benefit expense recorded in profit or loss and in OCI:

	2013	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
Components of retirement benefit liability recorded in profit or loss			
Current service cost	**P15,106,708**	P13,738,684	P12,519,430
Net interest expense:			
Interest expense	**5,374,116**	11,462,079	7,652,999
Interest income	**(6,565,098)**	(7,066,534)	(8,389,571)
	13,915,726	18,134,229	11,782,858
Past service cost	**-**	-	-
	13,915,726	18,134,229	11,782,858
Components of retirement benefit liability recorded in OCI			
Remeasurement (gain) loss on defined benefits obligation	**88,154,284**	(69,147,095)	56,966,440
Remeasurement loss on plan assets	**(5,768,473)**	(4,083,986)	(2,459,761)
	82,385,811	(73,231,081)	54,506,679
Total	**P96,301,537**	(P55,096,782)	P66,289,537

The net retirement benefit liability (asset), included under "Accrued Interest, Taxes and Other Expenses/(Other Assets)" account, recognized in the statements of financial position follows:

	2013	2012	2011
Present value of defined benefits obligation	**185,148,218**	88,100,266	140,294,721
Fair value of plan assets	**138,020,130**	107,624,565	86,493,682
	47,128,088	(19,524,299)	53,801,039

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

	2013	2012	2011
Balance at beginning of year	**P88,100,266**	P140,294,721	P72,885,702
Current service cost	**15,106,708**	13,738,684	12,519,430
Interest expense	**5,374,116**	11,462,079	7,652,999
Past service cost	**-**	-	-
Benefits paid	**(11,587,156)**	(8,248,123)	(9,385,682)
Remeasurement (gains) losses on obligation arising from:			
Change in financial assumptions	**81,896,041**	28,950,323	122,089,305
Change in demographic assumptions	**776,748**	-	-
Experience adjustment	**5,481,495**	(98,097,418)	(65,122,865)
Balance at end of year	**P185,148,218**	P88,100,266	P140,294,721

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

	2013	2012	2011
Balance at beginning of year	**P107,624,565**	P86,493,682	P79,900,678
Interest income	**6,565,098**	7,066,534	8,389,571
Contribution to plan assets	**29,649,150**	18,228,486	10,048,876
Benefits paid	**(11,587,156)**	(8,248,123)	(9,385,682)
Remeasurement gain (loss) on plan assets	**5,768,473**	4,083,986	(2,459,761)
Balance at end of year	**P138,020,130**	P107,624,565	P86,493,682

The actual return on plan assets amounted to P12.33 million, P11.15 million and P5.93 million in 2013, 2012 and 2011, respectively.

The Bank expects to contribute P32.4 million to its defined benefits retirement plan in 2014.

The retirement benefit expense under "Salaries and other employee benefit" in the statements of comprehensive income are recognized as follows:

	2013	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
Current service cost	**P15,106,708**	P13,738,684	P12,519,430
Interest cost (income)	**(1,190,982)**	4,395,545	(736,572)
	P13,915,726	P18,134,229	P11,782,858

The Bank's plan assets consist of the following (in thousands):

	2013	2012	2011
Due from Banks	**P28,404**	P6,897	P36,375
Equity investments	**12,468**	15,224	8,741
Debt securities	**80,857**	75,425	38,146
Loans	**9,042**	8,314	5,608
Accrued interest receivables	**1,213**	1,343	907
Dividends receivable	**81**	103	-
Accounts receivable	**-**	174	-
	P132,065	P107,480	P89,777

The Bank's plan assets as of December 31, 2013 differ from the balances at end of year due to the actuary using the September 30, 2013 balances in the actuarial valuation report (AVR). These were adjusted by applying interest, contributions and subtracting expected benefit payments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages		
	2013	2012	2011
Discount rate	**4.9%**	6.1%	10.5%
Salary increase rate	**8.0%**	5.0%	5.0%

Assumptions for mortality and disability rate are based on the adjusted 1985 Unisex Annuity Table and the 1djusted 1952 Disability Table reflecting experience improvement and Philippine experience.

As of December 31, 2013, 2012 and 2011, the weighted average duration of defined benefit obligation is 15 years, 14 years and 15 years, respectively.

<u>*Sensitivity Analysis*</u>

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	Discount Rate		Salary Increase Rate	
	+0.50%	-0.50%	+0.50%	-0.50%
Defined benefit obligation	(P14,408,711)	P16,015,922	P14,532,190	(P13,282,054)
Retirement liability	(14,408,711)	16,015,922	14,532,190	(13,282,054)

Although the analysis does not take into account of the full distribution of cashflows expected under the plan, it does provide an appropriation of the sensitivity of the assumptions shown.

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as of December 31, 2013, 2012 and 2011 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Bank has not made any provision for impairment losses relating to the receivables from retirement plan in 2013, 2012 and 2011.

The plan exposes the Bank to interest rate risk and market (investment) risk.

The BOT reviews the level of funding required for the retirement fund. This includes the asset-liability matching (ALM) strategy and investment risk management policy. The Bank's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Bank monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation.

The BOT approves the percentage of asset to be allocated for fixed income instruments and equities. The retirement plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

20. Leases

The Bank leases certain equipment and premises of its head office and branches. The lease contracts are for periods ranging from 1 to 10 years and are renewable at the Bank's option under certain terms and conditions. Various lease agreements include escalation clauses, most of which bear an annual rent increase of 5.0% to 10.0%. The lease agreements do not have contingent rent provisions.

Rent expense (included under "Occupancy and other equipment-related costs" in the statements of income) incurred by the Bank amounted to P109.0 million, P109.4 million, and P107.5 million in 2013, 2012 and 2011, respectively.

Future minimum lease rentals payable under non-cancelable operating leases follow:

	2013	2012	2011
Within one year	**P73,880,191**	P73,817,655	P70,068,549
After one year but not more than five years	**268,204,348**	234,760,756	235,313,218
After more than five years	**13,019,236**	100,563,881	141,235,091
	P355,103,775	P409,142,292	P446,616,858

21. Income and Other Taxes

Under Philippine tax laws, the RBU of 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) and documentary stamp taxes (DST). Income taxes include the corporate income tax, as discussed below, and final taxes paid at the rate of 20.0%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Taxes and licenses incurred by the Bank amounted to P152.0 million, P128.4 million, and P131.3 million in 2013, 2012 and 2011, respectively.

Republic Act (RA) No. 9337, An Act Amending National Internal Revenue Code, provides that the RCIT rate shall be 30.0%. Interest expense allowed as a deductible expense is reduced by 33.0% of interest income subjected to final tax.

In addition, current tax regulations provide for the ceiling on the amount of entertainment and representation (EAR) that can be claimed as a deduction against taxable income. Under the regulation, EAR allowed as deductible expense for a service Bank like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. EAR of the Bank amounted to P1.1 million, P1.4 million and P1.7 million (included under “Miscellaneous expenses” in the statements of income) in 2013, 2012 and 2011, respectively (see Note 22).

The regulations also provide for MCIT of 2.0% on modified gross income and allow a Net Operating Loss Carry Over (NOLCO). The Bank’s MCIT and NOLCO may be applied against the Bank’s income tax liability and taxable income, respectively, over a three-year period from the year of inception.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10% income tax. The FCDU’s other income, those that are not classified as onshore or offshore under R.A. 9294, is subject to 30.0% RCIT based on net taxable income (or 2.0% MCIT based on gross income, if applicable). In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.5%. RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.0% income tax.

Provision for income tax consists of:

	2013	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
Final	**P91,329,690**	P60,082,973	P82,098,539
MCIT	**23,899,647**	25,726,251	23,259,622
RCIT	**-**	546,377	3,417,332
	115,229,337	86,355,601	108,775,493
Deferred	**20,377,274**	96,569,489	78,380,196
	P135,606,611	P182,925,090	P187,155,689

The components of deferred tax assets and liabilities are as follows:

	2013	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
Deferred tax assets:			
NOLCO	**P51,740,761**	P85,633,544	P183,095,024
Allowance for impairment and credit losses	**111,753,266**	94,605,428	95,078,460
Unamortized past service costs	**5,818,640**	2,856,067	2,546,007
Accumulated depreciation of investment properties	**1,937,427**	2,743,687	2,318,178
Unrealized mark-to-market loss on derivatives	**-**	552,954	-
	171,250,094	186,391,680	283,037,669
Deferred tax liabilities:			
Unrealized mark-to-market gain on derivatives	**3,614,891**	-	76,500
Unrealized gain on non-financial asset	**1,798,254**	177,457	177,457
	5,413,145	177,457	253,957
	P165,836,949	P186,214,223	P282,783,712

The Bank did not recognize deferred tax assets on the following:

	2013	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
Excess of MCIT over RCIT	**P72,885,520**	P72,390,510	P46,664,259
Retirement Liability (Asset)	**47,128,088**	(19,524,299)	53,801,039
Accrued Rent Expense - PAS 17	**-**	-	3,300,099
	P120,013,608	P52,866,211	P103,765,397

Management believes that it is not likely that these will be realized in the future.

A reconciliation between the statutory income tax to provision for income tax follows:

	2013	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
Statutory income tax rate	**30.00%**	30.00%	30.00%
Tax effects of:			
Tax-paid and tax-exempt income	**(13.36)**	(3.48)	(6.32)
FCDU income (losses)	**4.98**	(4.76)	(6.79)
Application of NOLCO	**-**	-	(5.49)
Nondeductible interest expense	**4.30**	2.32	2.95
Nondeductible operating expense	**7.55**	8.02	16.71
Others	**8.00**	4.11	4.93
Effective income tax rate	**41.47%**	36.21%	35.99%

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

NOLCO:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2010	P92,917,368	P92,917,368	P -	2013
2011	517,399,380	344,930,178	172,469,202	2014
Total	P610,316,748	P437,847,546	P172,469,202	

Excess MCIT over RCIT:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2010	P23,404,637	P23,404,637	P -	2013
2011	23,259,622	-	23,259,622	2014
2012	25,726,251	-	25,726,251	2015
2013	23,899,647	-	23,899,647	2016
Total	P96,290,157	P23,404,637	P72,885,520	

22. Income and Expenses

Service fees and commission income consist of:

	2013	2012	2011
Credit-related	**P121,152,010**	P129,044,027	P125,485,068
Deposit-related	**43,045,099**	41,766,965	36,786,241
Miscellaneous	**34,678,992**	32,585,347	35,250,574
	P198,876,101	P203,396,339	P197,521,883

Miscellaneous income consists of:

	2013	2012	2011
Recovery on charged-off assets	**P60,431,282**	P66,790,336	P13,828,449
Unrealized gain from nonfinancial assets	**9,906,340**	11,578,531	17,249,531
Income from trust division	**9,901,644**	12,688,705	12,612,919
Income (loss) from assets acquired	**5,519,794**	(5,205,504)	1,355,894
Dividend income	**631,000**	2,241,223	632,800
Rent income - safety deposit box	**601,856**	461,459	583,880
Income (loss) from assets sold/exchanged	**21,998**	(4,104,752)	400,471
Other income	**17,864,874**	2,620,507	17,542,183
	P104,878,788	P87,070,505	P64,206,127

Other income consists of long-outstanding unreconciled items and mark-up on auxiliary services.

Miscellaneous expenses consist of:

	2013	2012	2011
Insurance	**P40,255,709**	P38,412,504	P42,826,985
Management and professional fees	**37,945,656**	37,048,709	36,770,545
Litigation	**16,449,328**	26,785,703	13,636,553
Postage and cable	**15,333,995**	14,243,208	10,633,226
Office supplies	**11,129,678**	7,643,476	10,015,580
Telecommunications	**9,712,681**	17,607,462	17,198,363
Banking and supervision fees	**8,443,874**	7,755,451	8,299,393
Advertising	**7,019,428**	5,368,016	5,754,284
Travel and transportation	**5,170,063**	5,088,243	5,148,627
Bank charges	**4,472,833**	4,469,896	7,014,671
Freight	**1,634,616**	2,115,294	2,314,976
Membership dues	**1,491,644**	2,225,113	2,207,545
Entertainment and representation	**1,142,620**	1,369,622	1,668,265
Fuel and lubricants	**655,320**	670,164	553,031
Other expenses	**25,799,306**	27,120,474	29,704,461
	P186,656,751	P197,923,335	P193,746,505

Other expenses consist of fees paid for periodicals, VISA and check processing.

23. Trust Operations

Securities and other properties held by the Bank in a fiduciary or agency capacity for its customers are not included in the Banking statements of financial position since these items are not assets of the Bank. As of December 31, 2013, 2012 and 2011, total assets held by the Bank's Trust Department amounted to P1.1 billion, P4.6 billion and P5.1 billion, respectively (see Note 25).

In connection with the trust operations of the Bank, government securities with carrying value of P78.3 million, P68.4 million and P54.0 million (face value of P77.0 million, P67.0 million and P57.0 million) as of December 31, 2013, 2012 and 2011, respectively, are deposited with the BSP in compliance with existing banking regulations relative to the trust functions of the Bank.

In compliance with existing BSP regulations, 10.0% of the Bank's income from trust business is appropriated to retained earnings. This yearly appropriation is required until the retained earnings for trust functions equals 20.0% of the Bank's regulatory net worth. No part of such retained earnings shall at any time be paid out as dividends, but losses accruing in the course of business may be charged against such surplus. As of December 31, 2013, 2012 and 2011, the reserve for trust functions amounted to P5.0 million.

24. Operating Segment Information

The Bank is organized based on the products and services that it offers and operates three principal areas namely: Treasury, Institutional Banking and Retail Banking.

Treasury - principally provides money market, trading and treasury services, as well as the management of the Bank's funding operations by use of government securities and placements and acceptances with other banks.

Institutional banking - principally handles loans, trade finance and other credit facilities and deposit and current accounts for institutional customers.

Retail Banking - addresses the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages and personal loans.

Others - principally handling supportive roles which are performed by Operations, Finance and Corporate Affairs Group, Institutional Credit Risk Management Group and Retail Credit Management Group and other divisions under the direct stewardship of the Office of the President.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Interest income is reported at net as management primarily relies on the net interest income as performance measure, not the gross income and expense.

The Bank has no significant customers which contributes 10.0% or more of the total revenue, net of interest expense.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

The following table presents revenue and income information of operating segments presented in accordance with PFRSs as of and for the years ended December 31, 2013, 2012 and 2011 (amount in thousands):

	2013				
	Treasury	**Institutional Banking**	**Retail Banking**	**Others**	**Total**
Net interest income					
Third party	**P161,694**	**P283,333**	**P1,014,444**	**P -**	**P1,459,471**
Intersegment	**56,914**	**(40,948)**	**(15,528)**	**(438)**	**-**
	218,608	**242,385**	**998,916**	**(438)**	**1,459,471**
Non-interest income	**245,638**	**100,296**	**194,484**	**11,313**	**551,731**
Revenue - net of interest expense	**464,246**	**342,681**	**1,193,400**	**10,875**	**2,011,202**
Non-interest expenses	**157,508**	**205,029**	**730,667**	**591,011**	**1,684,215**
Income (loss) before provision for income tax	**306,738**	**137,652**	**462,733**	**(580,136)**	**326,987**
Provision for income tax	**98,663**	**6,520**	**30,324**	**100**	**135,607**
Net income (loss)	**P208,075**	**P131,132**	**P432,409**	**(P580,236)**	**P191,380**
Depreciation and amortization	**P1,759**	**P4,770**	**P29,258**	**P42,863**	**P78,650**
Software amortization	**P8,745**	**P207**	**P5,160**	**P20,056**	**P34,168**
Provision for impairment and credit losses	**P -**	**P48,596**	**P201,021**	**P14,967**	**P264,584**

	2012 (As restated - see Note 29)				
	Treasury	Institutional Banking	Retail Banking	Others	Total
Net interest income					
Third party	P145,522	P286,376	P1,063,397	P -	P1,495,295
Intersegment	131,373	(67,509)	(63,690)	(174)	-
	276,895	218,867	999,707	(174)	1,495,295
Non-interest income	267,725	99,711	181,084	19,217	567,737
Revenue - net of interest expense	544,620	318,578	1,180,791	19,043	2,063,032
Non-interest expenses	131,152	194,161	680,707	551,903	1,557,923
Income (loss) before provision for income tax	413,468	124,417	500,084	(532,860)	505,109
Provision for income tax	76,200	52,960	53,675	90	182,925
Net income (loss)	P337,268	P71,457	P446,409	(P532,950)	P322,184
Depreciation and amortization	P1,554	P4,392	P32,868	P42,561	P81,375
Software amortization	P8,720	P226	P6,528	P18,407	P33,881
Provision for impairment and credit losses	P -	P33,551	P146,792	P11,726	P192,069

	2011 (As restated - see Note 29)				
	Treasury	Institutional Banking	Retail Banking	Others	Total
Net interest income					
Third party	P176,402	P287,202	P1,048,010	P -	P1,511,614
Intersegment	182,897	(86,370)	(96,405)	(122)	-
	359,299	200,832	951,605	(122)	1,511,614
Non-interest income	295,861	82,618	165,801	27,486	571,766
Revenue - net of interest expense	655,160	283,450	1,117,406	27,364	2,083,380
Non-interest expenses	146,594	150,878	759,851	506,061	1,563,384
Income (loss) before provision for income tax	508,566	132,572	357,555	(478,697)	519,996
Provision for income tax	34,462	(37,254)	189,878	70	187,156
Net income (loss)	P474,104	P169,826	P167,677	(P478,767)	P332,840
Depreciation and amortization	P1,596	P4,092	P44,064	P38,827	P88,579
Software amortization	P7,753	P133	P6,985	P12,546	P27,417
Provision for credit losses	(P52)	P6,429	P199,404	P16,659	P222,440

Segment information for the statements of financial position is as follows (amounts in thousands):

	Year	Segment Assets	Segment Liabilities	Capital Expenditures
Treasury	**2013**	**P8,844,525**	**P2,984,358**	**P1,487**
	2012	5,855,571	1,956,514	25
	2011	8,435,451	1,115,736	457
Institutional Banking	**2013**	**10,422,743**	**7,134,873**	**5,168**
	2012	7,088,330	4,975,039	1,780
	2011	8,545,977	9,981,603	1,135
Retail Banking	**2013**	**8,477,085**	**11,056,741**	**18,159**
	2012	8,158,885	7,834,390	13,848
	2011	8,080,910	8,168,990	53,059
Others	**2013**	392,915	469,835	20,765
	2012	483,408	361,102	29,340
	2011	688,849	421,725	87,444
Total	**2013**	P28,137,268	P21,645,807	P45,579
Total	2012	P21,586,194	P15,127,044	P44,993
Total	2011	P25,751,187	P19,688,054	P142,095

Presented below is the reconciliation of information on reportable segments to PFRS measures.

	2013	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
Revenues			
Total Revenue for reportable segments	**P2,011,202**	P2,063,032	P2,083,380
Unallocated amounts	**-**	-	-
Elimination of inter-segment revenue	**-**	-	-
Consolidated Revenue	**2,011,202**	2,063,032	2,083,380
Profit before tax			
Total profit for reportable segments	**326,987**	505,109	519,996
Unallocated amounts	**-**	-	-
Consolidated profit before tax	**326,987**	505,109	519,996
Assets			
Total assets for reportable segments	**28,137,268**	21,586,194	25,751,187
Unallocated amounts	**-**	-	-
Consolidated total assets	**28,137,268**	21,586,194	25,751,187
Liabilities			
Total liabilities for reportable segments	**21,645,807**	15,127,044	19,688,054
Unallocated amounts	**-**	-	-
Consolidated total liabilities	21,645,807	15,127,044	19,688,054

The Bank does not have geographical information to disclose since all operations are within the Philippines.

25. Commitments and Contingent Assets and Liabilities

In the normal course of business, the Bank enters into various commitments and incurs contingent liabilities that are not presented in the accompanying financial statements. The Bank does not anticipate any material losses as a result of these commitments and contingent liabilities.

For regulatory reporting purposes, the following is a summary of the commitments and contingent liabilities at their equivalent peso contractual amounts (amount in thousands):

	Note	**2013**	2012	2011
Trust department accounts	*23*	**P1,055,593**	P4,560,001	P5,057,901
Credit commitments		**180,137**	39,982	-
Unused commercial letters of credit		**351,285**	172,356	303,474
Outward bills for collection		**-**	-	63,278
Inward bills for collection		**-**	3,168	-
Others		**13,990**	6,241	2,537

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.

The Bank treats other subsidiaries and branch offices of the Parent Bank as related parties (collectively referred to as "affiliates").

In the ordinary course of business, the Bank has loan transactions with investees and with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the respective total regulatory capital or 15% of total loan portfolio, whichever is lower.

On March 15, 2004, the BSP issued Circular 423 which provides for the amended definition of DOSRI accounts. It clarifies that loans granted to officers and employees under an approved fringe benefit program is excluded from the individual ceiling but is subject to 5% aggregate ceiling.

The following table shows information relating to DOSRI loans (in thousands):

	2013	2012	2011
Total outstanding DOSRI loans	**P1,164**	P -	P -
Percent of DOSRI loans to total loan portfolio	**0.00%**	-	-
Percent of unsecured DOSRI loans to total DOSRI loans	**-**	-	-
Percent of past due DOSRI loans to total DOSRI loans	**-**	-	-
Percent of non-performing DOSRI loans to total DOSRI loans	**-**	-	-

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10% of bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

The significant account balances with respect to related parties included in the financial statements (after appropriate eliminations have been made) are as follows:

			Outstanding Balance			
Category/ Transaction	Year	Amount of the Transaction	Due from Related Parties	Due to Related Parties	Terms	Conditions
Parent						
Current Deposits						
Deposits	**2013**	**P1,135,406,911**	**P8,067,326**	P -	**Demandable;**	**Unsecured;**
Withdrawals		**(1,195,723,266)**			**Non-interest bearing**	**no impairment**
Deposits	2012	781,957,613	49,571,502	-	Demandable;	Unsecured;
Withdrawals		(876,266,734)			Non-interest bearing	no impairment
Deposits	2011	1,245,925,548	149,151,254	-	Demandable;	Unsecured;
Withdrawals		(1,111,073,435)			Non-interest bearing	no impairment
Bills Payable						
Availments	**2013**	**10,301,115,000**	**-**	**2,974,465,000**	**1-7days;**	**Unsecured;**
Settlements		**(9,256,000,000)**			**interest bearing**	**no impairment**
Availments	2012	48,464,650,000	-	1,929,350,000	1-7days;	Unsecured;
Settlements		(47,192,900,000)			interest bearing	no impairment
Availments	2011	19,324,692,500	-	657,600,000	1-7days;	Unsecured;
Settlements		(19,239,807,500)			interest bearing	no impairment
Interest Expense on Bills Payable	**2013**	**12,666,098**	**-**	**12,666,098**	**Demandable; interest bearing**	**Unsecured; no impairment**
	2012	5,088,406	-	5,088,406	Demandable; interest bearing	Unsecured; no impairment
	2011	4,133,063	-	4,133,063	Demandable; interest bearing	Unsecured; no impairment

Forward

Category/ Transaction	Year	Amount of the Transaction	Outstanding Balance Due from Related Parties	Outstanding Balance Due to Related Parties	Terms	Conditions
Entities under Common Control						
Current Deposits to CTBC - New York						
Deposits	**2013**	**P52,684,389,196**	**P9,225,746**	**P -**	**Demandable; non-interest bearing**	**Unsecured; no impairment**
Withdrawals		**(52,703,470,513)**				
Deposits	2012	46,831,721,870	26,580,996	-	Demandable; non-interest bearing	Unsecured; no impairment
Withdrawals		(46,822,773,853)				
Deposits	2011	301,823,527	21,053,948	-	Demandable; non-interest bearing	Unsecured; no impairment
Withdrawals		(305,168,288)				
Current Deposits to CTBC - USA						
Deposits	**2013**	**-**	**-**	**-**	**Demandable; non-interest bearing**	**Unsecured; no impairment**
Withdrawals		**-**				
Deposits	2012	20,719,276	-	-	Demandable; non-interest bearing	Unsecured; no impairment
Withdrawals		(25,064,438)				
Deposits	2011	7,201,534	4,465,866	-	Demandable; non-interest bearing	Unsecured; no impairment
Withdrawals		(18,605,550)				
Current Deposits to CTBC - Hongkong						
Deposits	**2013**	**19,459,953**	**9,504,946**	**-**	**Demandable; non-interest bearing**	**Unsecured; no impairment**
Withdrawals		**(11,744,443)**				
Deposits	2012	6,289,911	1,752,153	-	Demandable; non-interest bearing	Unsecured; no impairment
Withdrawals		(14,717,444)				
Deposits	2011	30,269,464	10,400,065	-	Demandable; non-interest bearing	Unsecured; no impairment
Withdrawals		(26,009,624)				
Current Deposits to CTBC- Tokyo						
Deposits	**2013**	**-**	**-**	**-**	**Demandable; non-interest bearing**	**Unsecured; no impairment**
Withdrawals		**-**				
Deposits	2012	-	-	-	Demandable; non-interest bearing	Unsecured; no impairment
Withdrawals		(1,523,785)				
Deposits	2011	-	953,723	-	Demandable; non-interest bearing	Unsecured; no impairment
Withdrawals		-				
Key Management Personnel						
Loans and Receivables						
Additions	**2013**	**18,291,585**	**24,183,906**	**-**	**1-5 years; interest bearing**	**Secured and unsecured; with impairment**
Collections		**(17,738,250)**			**1-5 years; interest bearing**	**Secured and unsecured; with impairment**
Additions	2012	14,731,600	23,630,620	-	1-5 years; interest bearing	Secured and unsecured; with impairment
Collections		(16,640,816)			1-5 years; interest bearing	Secured and unsecured; with impairment
Additions	2011	17,721,075	22,001,558	-	1-5 years; interest bearing	Secured and unsecured; with impairment
Collections		(12,888,455)			1-5 years; interest bearing	Secured and unsecured; with impairment
Interest Income on Loans and Receivables	**2013**	**2,078,249**	**2,078,249**	**-**	**Demandable; interest bearing**	**Unsecured; no impairment**
	2012	2,060,212	2,060,212	-	Demandable; interest bearing	Unsecured; no impairment
	2011	1,634,546	1,634,546	-	Demandable; interest bearing	Unsecured; no impairment

Forward

Category/ Transaction	Year	Amount of the Transaction	Outstanding Balance Due from Related Parties	Outstanding Balance Due to Related Parties	Terms	Conditions
Other Related Parties						
Employees' retirement fund held by Trust Operations						
Deposit Liabilities						
Deposits	**2013**	**P658,055,642**	**P -**	**P1,124,013**	**1-3years, interest bearing**	**Secured, no impairment**
Withdrawals		**(645,848,413)**				
Deposits	2012	555,438,222	-	3,391,647	1-3years, interest bearing	Secured, no impairment
Withdrawals		(551,006,065)				
Deposits	2011	551,194,565	-	578,985	1-3years, interest bearing	Secured, no impairment
Withdrawals		(537,672,882)				
Interest Expense on Deposit Liabilities	**2013**	**11,447**	**-**	**11,447**	**Demandable; interest bearing**	**Unsecured; no impairment**
	2012	17,559	-	17,559	Demandable; interest bearing	Unsecured; no impairment
	2011	81,298	-	81,298	Demandable; interest bearing	Unsecured; no impairment
TOTAL	**2013**	**P1,000,949,196**	**P53,060,173**	**P2,988,266,558**		
TOTAL	2012	P1,181,781,534	P103,595,483	P1,937,847,612		
TOTAL	2011	P233,451,386	P209,660,960	P662,393,346		

In 2013, 2012 and 2011, the Bank recognized provision for credit losses on loans and receivables from key management personnel amounting to P99.2 thousand, P22.4 thousand and P126.1 thousand, respectively.

The remuneration of directors and other members of key management personnel are as follows:

	2013	2012	2011
Short-term benefits	**P43,784,809**	P50,375,569	P53,721,221
Other long-term benefits	**-**	1,333,892	443,435
	P43,784,809	P51,709,461	P54,164,656

In accordance with the Bank's by laws, profit share of officers and employees is computed at 10.0% of net income after tax.

The Bank's compensation to Key Management Personnel is shown as part of "Compensation and fringe benefits" in the statements of income.

Furthermore, the Bank has a separate funded noncontributory defined benefit plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The Bank's employee benefit fund (or "retirement plan asset") is in the form of a trust account being maintained by the Bank's Trust Operations Department ("Trustee).

As discussed in Note 19, the Bank's retirement plan assets are invested in various debt and equity instruments, such as government securities, corporate papers, equity securities traded in PSE, as well as investments in BSP's special deposit account and placements with the Bank. The Bank's retirement plan assets do not have investments in real properties.

Other than placements with the Bank, the Bank's retirement plan assets do not have investments in securities, whether debt or equity, issued by the Bank as of December 31, 2013, 2012 and 2011.

As of December 31, 2013, 2012 and 2011, the carrying values of the Bank's retirement plan assets, which approximate its fair value, amounted to P138.0 million, P107.6 million and P86.5 million, respectively (see Note 19).

27. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Bank, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2013, 2012 and 2011 and are not indicative of either market risk or credit risk (in thousands).

	2013		
	Assets	**Liabilities**	**Notional Amount**
Freestanding Derivatives -			
Currency forwards and swaps			
Buy:			
USD/PHP	**P12,892**	**P255**	**USD5,000**
USD/JPY	**35**	**55**	**3,050**
EUR/USD	**1**	**-**	**1,377**
USD/EUR	**-**	**383**	**1,918**
USD/AUD	**-**	**1**	**893**
Sell:			
USD/PHP	**252**	**892**	**14,000**
	P13,180	**P1,587**	

	2012		
	Assets	Liabilities	Notional Amount
Freestanding Derivatives -			
Currency forwards and swaps			
Buy:			
USD/PHP	P690	P1,324	USD26,600
CHF/EUR	42	-	EUR1,210
EUR/CHF	-	113	EUR1,000
JPY/USD	-	1,636	JPY126,073
USD/EUR	-	71	USD396
USD/JPY	2,064	-	USD2,200
Sell:			
USD/PHP	-	570	1,000
	P2,796	P3,714	

	2011		
	Assets	Liabilities	Notional Amount
Freestanding Derivatives - Currency forwards and swaps			
Buy:			
USD/EUR	P637	P -	USD1,308
USD/JPY	-	26	500
	P637	P26	

The Bank entered into currency forwards and swap contracts to manage its foreign exchange risks. Currency forwards are contractual agreements to buy or sell a specified currency at a specific price and date in the future.

The net movements in fair value changes of derivatives are as follows (amount in thousands):

	2013	2012	2011
Net derivative asset at beginning of year	**(P918)**	P611	P4,507
Net changes in fair value of derivatives	**13,165**	(1,678)	(4,166)
Fair value of settled contracts	**(653)**	149	270
Net derivative asset (liabilities) at end of year	**P11,594**	(P918)	P611

28. Financial Performance

EPS amounts attributed to equity holdings of the Bank were computed as follows:

	2013	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
a. Net income	**P191,380,363**	P322,184,089	P332,840,383
b. Weighted average number of outstanding common shares[1]	**247,564,631**	247,564,631	247,968,731
c. Basic/Diluted EPS (a/b)	**P0.77**	P1.30	P1.34

[1] *The Bank acquired 484,920 shares of its common stock in February 2012 as part of its delisting and share buyback program. Cost of acquisition is recorded as 'Treasury Stock'*

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

		2013	2012 (As restated - see Note 29)	2011 (As restated - see Note 29)
a.	Net income	**P191,380,363**	P322,184,089	P332,840,383
b.	Average total equity	**6,552,876,210**	6,278,623,602	5,963,807,920
	Return on average equity (a/b)	**2.9%**	5.1%	5.6%
c.	Net income	**P191,380,363**	P322,184,089	P332,840,383
d.	Average total assets	**25,778,222,281**	21,548,891,005	23,259,337,685
	Return on average assets (c/d)	**0.7%**	1.5%	1.4%
e.	Net interest income	**P1,459,471,066**	P1,495,295,163	P1,511,613,857
f.	Average interest earning assets	**20,667,372,222**	19,020,105,081	20,424,209,020
	Net interest margin on average earning assets (e/f)	**7.1%**	7.9%	7.4%

Note: Average balances were determined as the average of the month-end balances of the respective statements of financial position accounts for the year.

29. Restatements

As discussed in Note 3, the Bank restated its 2012 and 2011 audited financial statements to reflect the transition to the following changes in the Bank's accounting policy as follows:

a) The Bank has applied the relevant transitional provisions of the amended PAS19 on a retrospective basis and has changed its accounting policy with respect to the elimination of the "corridor method" under which the recognition of actuarial gains and losses could be deferred. Instead, all actuarial gains and losses are recognized immediately in other comprehensive income.

   Furthermore, the Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) consists of: interest cost on the defined benefit obligation, interest income on plan assets, and interest on the effect on the asset ceiling. Prior to the adoption of PAS 19 (Amended 2011), interest income on plan asset is based on their long-term rate of expected return.

   To reflect in the financial statements the effect on the application of PAS 19R in determining the defined benefit obligation, income and expenses. The change in accounting policy resulted to, among others, the following:

   - the elimination of the "corridor approach" resulted to an immediate recognition of all actuarial gains and losses to "Other Comprehensive Income" amounting to P18.7 million gain in 2012 and P54.5 million loss in 2011. The amounts recognized in OCI include restatement of the prior years' recognized actuarial gains and losses in the statements of income calculated based on "corridor approach" amounting to P2.5 million and nil in 2012 and 2011, respectively; and

- interest expense (income) on the defined benefit obligation (asset) is calculated based on the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset). Effectively, this removes the concept of “expected return on plan assets” that were previously recognized in profit and loss. The Bank restated the prior years' statements of income to the extent of the amount of expected return on plan assets amounting to P4.3 million and P 4.8 million in 2012 and 2011, respectively, and recognized interest income on plan assets amounting to P7.0 million and P8.4 million in 2012 and 2011, respectively.

As a result of the foregoing, the cumulative impact of these restatements in profit and loss amounted to P5.2 million and P3.6 million in 2012 and 2011, respectively.

b) To reflect in the financial statements the effect on the change in recognition of regular way purchase and sale of financial instruments from settlement date to trade date basis of accounting.

In 2011, there were trading securities classified as financial assets at FVPL and AFS investments that were sold towards the end of the year with carrying value amounting to P27.0 million and P50.7 million (net of unrealized gain recognized in OCI of P185 thousand), respectively, that were subsequently settled in 2012. These securities were only derecognized upon settlement.

Under trade date basis of accounting, these securities (including the receivable and unrealized gain in OCI) should have been derecognized in the statements of financial position as of December 31, 2011. The impact in profit and loss includes the recognition of interest income of AFS investments of P1.0 million, realized trading gain on Financial assets at FVPL and AFS investments amounting to P88 thousand and P1.4 million, respectively, and final tax expense amounting to P185 thousand.

As a result of the foregoing, profit and loss in 2011 is understated by P2.5 million (net of tax) and 2012 is overstated by the same amount.

Summarized below are the effects of the restatement to the previously reported balances:

Reconciliation of Statement of Financial Position:

	December 31, 2012		
	As Previously Reported	Effect of Restatement	As Restated
Assets			
Pension asset**	P -	P19,524,299	P19,524,299
Liabilities and Equity			
Retirement liability***	7,977,692	(7,977,692)	-
Retained earnings	3,871,813,912	8,777,589	3,880,591,501
Net unrealized gain (loss) on Retirement Obligation	-	18,724,402	18,724,402

	January 1, 2012		
	As Previously Reported	Effect of Restatement	As Restated
Assets			
Financial Assets at FVPL	P80,195,144	(P27,070,924)	P53,124,220
AFS Investments	642,622,463	(50,737,950)	591,884,513
Other receivables*	683,340,117	80,287,516	763,627,633
Miscellaneous**	93,350,406	16,862	93,367,268
Liabilities and Equity			
Retirement liability***	2,869,994	50,931,045	53,801,039
Accounts payable****	774,669,365	225,464	774,894,829
Retained earnings	3,552,376,788	6,030,624	3,558,407,412
Net unrealized gain (loss) on AFS investments	12,229,680	(184,950)	12,044,730
Net unrealized gain (loss) on Retirement Obligation	-	(54,506,679)	(54,506,679)

* *Other receivables is recorded under "Loans and receivables-net" in the statements of financial position*

** *Pension asset and Miscellaneous is recorded under "Other assets" in the statements of financial position*

*** *Retirement liability is recorded under "Accrued Interest, Taxes and Other Expenses" in the statements of financial position*

**** *Accounts payable is recorded under "Other liabilities" in the statements of financial position*

Reconciliation of Statement of Income and Other Comprehensive Income:

	December 31, 2012		
	As Previously Reported	Effect of Restatement	As Restated
Statement of Income			
Interest income on AFS investments	P35,819,040	(P1,038,346)	P34,780,694
Trading and securities gain - net on Financial Assets at FVPL	187,580,423	87,630	187,668,053
Trading and securities gain - net on AFS investments	79,632,201	(1,438,500)	78,193,701
Compensation and fringe benefits	620,227,967	(5,201,955)	615,026,012
Provision for tax - final	60,017,199	65,774	60,082,973
Other Comprehensive Income (OCI)			
Unrealized gain on retirement obligation	-	73,231,081	73,231,081
Net unrealized gain on available-for-sale investments	33,496,671	184,950	33,681,621

	December 31, 2011		
	As Previously Reported	Effect of Restatement	As Restated
Statement of Income			
Interest income on AFS investments	P159,605,331	P1,038,346	P160,643,677
Trading and securities gain - net on Financial Assets at FVPL	257,928,351	(87,630)	257,840,721
Trading and securities gain - net on AFS investments	56,292,167	1,438,500	57,730,666
Compensation and fringe benefits	592,735,105	(3,575,634)	589,159,471
Provision for final tax	82,164,314	(65,774)	82,098,540
Other Comprehensive Income (OCI)			
Unrealized loss on retirement obligation	-	(54,506,679)	54,506,679
Net unrealized gain on available-for-sale investments	17,855,631	(184,950)	17,670,681

The impact of these restatements, in aggregate, to net income, OCI, and total comprehensive income, is as follows:

	December 31, 2012		
	As Previously Reported	Effect of Restatement	As Restated
Net income	P319,437,125	P2,746,964	P322,184,089
OCI	P33,496,671	P73,416,031	P106,912,702
Total comprehensive income	P335,805,511	P76,162,996	P411,968,507

	December 31, 2011		
	As Previously Reported	Effect of Restatement	As Restated
Net income	P326,809,758	P6,030,625	P332,840,383
OCI	P17,855,631	(P54,691,629)	(P37,020,948)
Total comprehensive income	P368,699,780	(P48,661,005)	P320,038,775

The effect of restatement to EPS is as follows:

	December 31, 2012		
	As Previously Reported	Effect of Restatement	As Restated
Basic/diluted earnings per share	P1.29	P0.01	P1.30

	December 31, 2011		
	As Previously Reported	Effect of Restatement	As Restated
Basic/diluted earnings per share	P1.32	P0.02	P1.34

The effect of restatement to the following key ratios is as follows:

Liquidity Ratio

	December 31, 2012		
	As Previously Reported	Effect of Restatement	As Restated
Net liquid assets	P5,179,319,352	P -	P5,179,319,352
Total deposits	12,000,063,215	-	12,000,063,215
Ratio of net liquid assets to total deposits	43%	-	43%

	December 31, 2011		
	As Previously Reported	Effect of Restatement	As Restated
Net liquid assets	P9,266,604,189	(P77,808,874)	P9,188,795,315
Total deposits	17,280,639,049	-	17,280,639,049
Ratio of net liquid assets to total deposits	54%	(1%)	53%

Debt to Equity Ratio

	December 31, 2012		
	As Previously Reported	Effect of Restatement	As Restated
Total liabilities	P15,135,021,854	P(7,977,692)	P15,127,044,162
Total equity	6,431,647,362	27,501,991	6,459,149,353
Ratio of debt to equity	235%	(1%)	234%

	December 31, 2011		
	As Previously Reported	Effect of Restatement	As Restated
Total liabilities	P19,636,897,633	P51,156,508	P19,688,054,142
Total equity	6,111,793,525	(48,661,005)	6,063,132,520
Ratio of debt to equity	321%	4%	325%

Assets-to-Equity Ratio

	December 31, 2012		
	As Previously Reported	Effect of Restatement	As Restated
Total assets	P21,566,669,216	P19,524,299	P21,586,193,515
Total equity	6,431,647,362	27,501,991	6,459,149,353
Ratio of total assets to equity	335%	(1%)	334%

	December 31, 2011		
	As Previously Reported	Effect of Restatement	As Restated
Total assets	P25,748,691,158	P2,495,504	P25,751,186,662
Total equity	6,111,793,525	(48,661,005)	6,063,132,520
Ratio of total assets to equity	421%	4%	425%

Interest Rate Coverage Ratio

	December 31, 2012		
	As Previously Reported	Effect of Restatement	As Restated
Income before income tax	P502,296,440	P2,812,739	P505,109,179
Interest expense	156,063,178	-	156,063,178
Interest coverage ratio	322%	2%	324%

	December 31, 2011		
	As Previously Reported	Effect of Restatement	As Restated
Income before income tax	P514,031,222	P5,964,850	P519,996,072
Interest expense	230,820,732	-	230,820,732
Interest coverage ratio	223%	2%	225%

Profitability Ratios

	December 31, 2012 As Previously Reported	Effect of Restatement	As Restated
a.) Net income	P319,437,125	P2,746,964	P322,184,089
b.) Average total equity	6,280,251,218	(1,627,616)	6,278,623,602
Return on average equity (a/b)	5.1%		5.1%
c.) Net income	P319,437,125	P2,746,964	P322,184,089
d.) Average total assets	21,550,268,929	(1,377,924)	21,548,891,005
Return on average assets (c/d)	1.5%	-	1.5%
e.) Net interest income	P1,496,333,509	P1,038,346	P1,495,295,163
f.) Average interest earning assets	19,020,105,081	-	19,020,105,081
Net interest margin on average earning assets (e/f)	7.9%	-	7.9%

	December 31, 2011 As Previously Reported	Effect of Restatement	As Restated
a.) Net income	P326,809,758	P6,030,625	P332,840,383
b.) Average total equity	5,967,551,074	(3,743,154)	5,963,807,920
Return on average equity (a/b)	5.5%	0.1%	5.6%
c.) Net income	P326,809,758	P6,030,625	P332,840,383
d.) Average total assets	23,217,521,600	41,816,085	23,259,337,685
Return on average assets (c/d)	1.4%	-	1.4%
e.) Net interest income	P1,510,575,512	P1,038,346	P 1,511,613,858
f.) Average interest earning assets	20,424,209,020	-	20,424,209,020
Net interest margin on average earning assets (e/f)	7.4%	-	7.4%

30. Information Required Under Revenue Regulations 19-2011

In addition to the disclosures mandated under PFRSs, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRSs. The following is the tax information required for the taxable year ended December 31, 2013:

Schedule of Sales/Revenues/Receipts Fees

	Regular Rate
Sale of goods/properties	**P -**
Sale of services	**1,312,956,006**
Lease of properties	**-**
	-
Less: Sales returns and discounts	**-**
Documentary stamps on hand, December 31, 2013	**P1,312,956,006**

Schedule of Cost of Sales (Services)

	Regular Rate
Direct charges - salaries, wages and benefits	**P353,433,416**
Direct charges - materials, supplies, and facilities	**-**
Direct charges - depreciation	**-**
Direct charges - rental	**-**
Direct charges - outside services	**-**
Direct charges - others	**129,017,555**
	P482,450,971

Schedule of Non-Operating and Taxable Other Income

	Regular Rate
Fees and commissions	**P167,264,638**
FX gains	**88,242,112**
Others	**108,970,585**
	P364,477,335

Schedule of itemized deductions

	Regular Rate
Salaries and allowances	**P208,520,054**
Rental	**103,454,267**
Taxes and licenses	**100,126,545**
Depreciation	**77,449,214**
Commission	**66,638,290**
Repairs and maintenance	**57,132,927**
Communication, light and water	**48,426,138**
Amortization of intangibles	**34,390,039**
Other outside services	**20,852,882**
Security services	**20,676,260**
Janitorial and messengerial services	**13,783,650**
Insurance	**9,459,473**
Office supplies	**7,856,448**
Directors fees	**6,260,316**
Transportation and travel	**5,100,805**
Advertising	**4,898,439**
SSS, GSIS, Philhealth, HDMF and other contributions	**4,543,213**
Professional fees	**3,172,312**
Management and consultancy fee	**1,177,033**
Representation and entertainment	**1,133,643**
Fuel and oil	**622,656**
Charitable contributions	**98,750**
Miscellaneous	**286,253,190**
Total expenses	**1,082,026,544**
Allowance of NOLCO	**285,425,028**
Total	**P1,367,451,572**

31. Supplementary Information Required Under Revenue Regulations 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) No. 15-2010 for the amendments in certain provisions of RR No. 21-2002, as *Amended, Implementing Section 6(H) of the Tax Code of 1997, Authorizing the Commissioner of Internal Revenue to Prescribe Additional Procedural and/or Documentary Requirements in Connection with the Preparation and Submission of Financial Statements AcBanking the Tax Returns*.

In compliance with the above RR, the Bank presents information on taxes, duties and license fees paid or accrued during the taxable years.

The details of taxes and licenses account in 2013 are as follows:

Gross receipt tax	**P120,928,552**
Documentary stamp tax	**26,976,720**
Business licenses	**2,422,467**
Real property tax	**1,399,297**
Business taxes	**143,639**
Bank car registration	**105,199**
Annual registration fee	**12,500**
Community tax certificate	**10,500**
	P151,998,874

The NIRC of 1997 provides for the imposition of GRT on gross receipts derived by banks from sources within the Philippines. Accordingly, the Bank's gross receipts are subject to GRT as reimposed in RA No. 9238 beginning January 1, 2004.

Details of the GRT remitted in 2013 are as follows:

	Tax Base	**Total Remittances**	**Balance**
Income subject to 5%	**P1,287,521,708**	**P59,848,482**	**P4,527,603**
Income subject to 1%	**62,677,944**	**586,561**	**40,218**
Other income subject to 7%	**832,263,738**	**55,750,579**	**2,507,883**
	P2,182,463,390	**P116,185,622**	**P7,075,704**

The difference in the recorded expense for GRT and the total remittances and outstanding balance as of December 31, 2013 amounting to P2.3 million is attributed to pre-termination of loans in which the adjustment to GRT is shouldered by the customer.

Documentary Stamp Tax

Movement in documentary stamp tax as follows:

	Balance
Documentary stamps on hand, December 31, 2012	P2,771,716
Purchases (BIR Form 2000)	82,000,000
Documentary stamps used	(82,655,501)
Documentary stamps on hand, December 31, 2013	**P2,116,215**

Withholding Taxes

Details of total remittances of withholding taxes in 2013 are as follows:

	Total Remittances	**Balance**
Withholding taxes on compensation and benefits	**P116,637,340**	**P16,059,742**
Final withholding tax on interest on deposits	**18,368,389**	**1,887,653**
Expanded withholding taxes	**17,766,005**	**1,605,594**
	P152,771,734	**P19,552,989**

Outstanding amount of withholding taxes are included in “Other liabilities” account in the statements of financial position.

CTBC BANK (PHILIPPINES) COMMERCIAL BANK CORPORATION
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

SCHEDULE OF ALL PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) [WHICH CONSIST OF PFRSS, PHILIPPINE ACCOUNTING STANDARDS (PAS) AND PHILIPPINE INTERPRETATIONS] EFFECTIVE AS OF DECEMBER 31, 2013

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments			✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
PFRS 10	Consolidated Financial Statements			✓
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
PFRS 13	Fair Value Measurement	✓		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets			✓
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs	✓		
Philippine Interpretations Committee Questions and Answers				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements			✓
PIC Q&A 2007-01-Revised	PAS 1.103(a) - Basis of preparation of financial statements if an entity has not applied PFRSs in full	✓		
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)	✓		
PIC Q&A 2007-04	PAS 101.7 - Application of criteria for a qualifying Non-publicly Accountable Entity (NPAE)			✓
PIC Q&A 2008-01-Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations			✓
PIC Q&A 2008-02	PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20			✓
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2009-02	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
PIC Q&A 2010-01	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-02	PAS 1R.16 - Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan			✓
PIC Q&A 2011-01	PAS 1.10(f) - Requirements for a Third Statement of Financial Position	✓		
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations			✓
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares	✓		
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost	✓		
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of Investment properties – asset acquisition or business combination?			✓
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements			✓
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building			✓
PIC Q&A 2013-01	Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs			✓
PIC Q&A 2013-03	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law			✓

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2013

Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning[1]		**P -**
Net income during the year closed to retained earnings	P191,380,363	
Less: Non-actual/ unrealized income net of tax		
Equity in net income of associate/ joint venture	-	
Unrealized foreign exchange gain-net (except those attributable to cash and cash equivalents)	13,116,441	
Unrealized actuarial gain	-	
Fair value adjustment (marking to market gains)	(4,537,563)	
Provision for deferred tax asset	(20,377,274)	
Fair value adjustment of Investment Property/AR-ICCS resulting in gain	12,060,616	
Adjustment due to deviation from PFRSs/GAAP – gain	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRSs	2,724,573	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	-	
Adjustment due to deviation from PFRSs/GAAP – loss	-	
Loss on fair value adjustment of investment property (after tax)	-	
Net income actually earned during the year		**188,393,571**
Add/Less:		
Dividend declaration during the period	-	
Appropriations of Retained Earnings during the period		
Trust operations	-	
Treasury shares[1, 2]	-	
BASEL III requirements and ICAAP[1]	(188,393,571)	
Reversal of appropriations	-	
Effects of prior period adjustments	-	**(188,393,571)**
Total retained earnings, available for dividend declaration[1], ending		**P -**

[1] - At the regular meeting of the BOD held on February 23, 2012, the BOD approved the restriction of the full amount of retained earnings for the following purposes:
i.) to comply with the requirements of the ICAAP pursuant to BSP Circular 639 which took effect on January 1, 2010.
ii.) to cover the resulting treasury shares acquired in relation to the Bank's delisting and share buyback exercise. And
iii.) to provide for buffer in preparation for BASEL III requirements.
[2] - Amount includes transaction cost.

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2013

Liquidity Ratio
The ratio for the years 2013, 2012 and 2011 are as follows:

	2013	2012 (As restated)	2011 (As restated)
Net liquid assets	**P8,039,671,878**	P5,179,319,352	P9,188,795,315
Total deposits	**17,419,908,898**	12,000,063,215	17,280,639,049
Ratio of net liquid assets to total deposits	**46 %**	43%	53%

Net liquid assets consist of cash, due from banks, interbank loans, securities held for trade and available for sale less interbank borrowings.

Debt to Equity Ratio
The ratio for the years 2013, 2012 and 2011 are as follows:

	2013	2012 (As restated)	2011 (As restated)
Total liabilities	**P21,645,806,668**	P15,127,044,162	P19,688,054,142
Total equity	**6,491,461,617**	6,459,149,353	6,063,132,520
Ratio of debt to equity	**333%**	234%	325%

Assets-to-Equity Ratio
The ratio for the years 2013, 2012 and 2011 are as follows:

	2013	2012 (As restated)	2011 (As restated)
Total assets	**P28,137,268,285**	P21,586,193,515	P25,751,186,662
Total equity	**6,491,461,617**	6,459,149,353	6,063,132,520
Ratio of total assets to equity	**433%**	334%	425%

Interest Rate Coverage Ratio
The ratio for the years 2013, 2012 and 2011 are as follows:

	2013	2012 (As restated)	2011 (As restated)
Income before income tax	**P326,986,974**	P505,109,179	P519,996,072
Interest expense	**156,743,198**	156,063,178	230,820,732
Interest coverage ratio	**209%**	324%	225%

Profitability Ratios

The ratio for the years 2013, 2012 and 2011 are as follows:

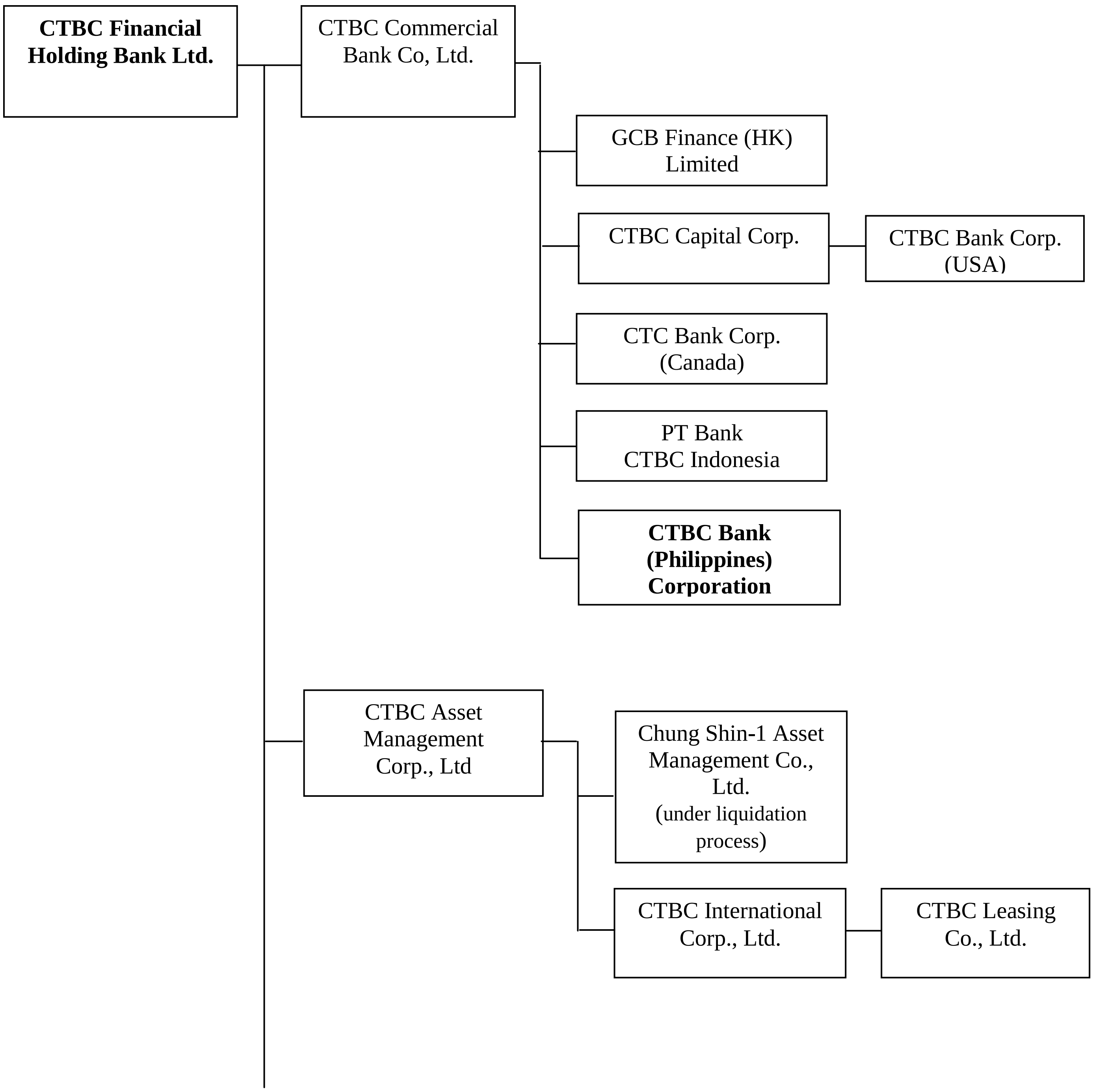
		2013	2012 (As restated)	2011 (As restated)
a.)	Net income	**P191,380,363**	P322,184,089	P332,840,383
b.)	Average total equity	**6,552,876,210**	6,278,623,602	5,963,807,920
	Return on average equity (a/b)	**2.9%**	5.1%	5.6%
c.)	Net income	**P191,380,363**	P322,184,089	P332,840,383
d.)	Average total assets	**25,778,222,281**	21,548,891,005	23,259,337,685
	Return on average assets (c/d)	**0.7%**	1.5%	1.4%
e.)	Net interest income	**P1,459,471,066**	P1,495,295,163	P1,511,613,858
f.)	Average interest earning assets	**20,667,372,000**	19,020,105,081	20,424,209,020
	Net interest margin on average earning assets (e/f)	**7.1%**	7.9%	7.4%

SCHEDULE IV

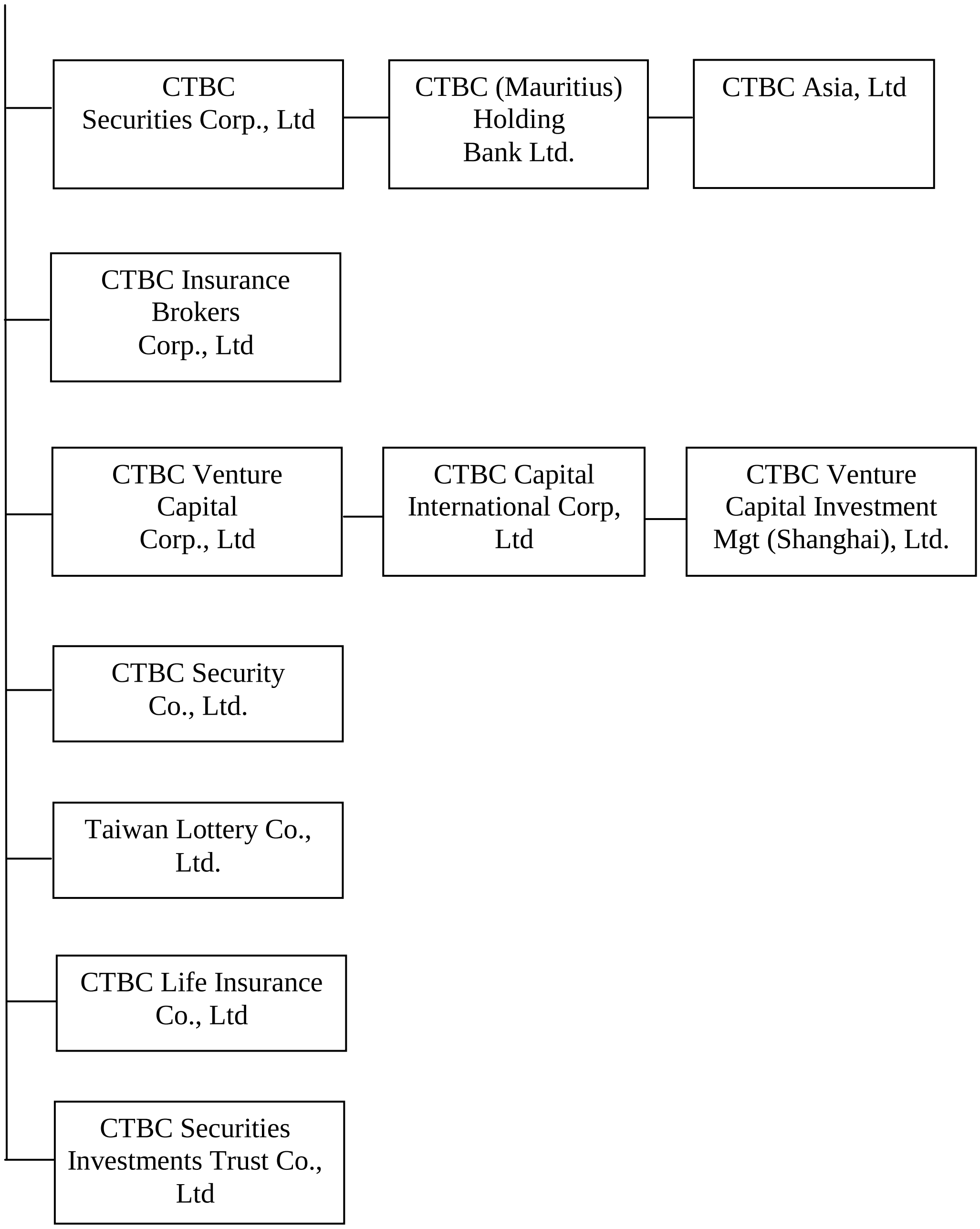
CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

RELATIONSHIP MAP
DECEMBER 31, 2013

Below is a map showing the relationship between and among the Group and its ultimate parent Bank, subsidiaries, and associates as of December 31, 2013:



(Forward)


CTBC Securities Corp., Ltd
CTBC (Mauritius) Holding Bank Ltd.
CTBC Asia, Ltd
CTBC Insurance Brokers Corp., Ltd
CTBC Venture Capital Corp., Ltd
CTBC Capital International Corp, Ltd
CTBC Venture Capital Investment Mgt (Shanghai), Ltd.
CTBC Security Co., Ltd.
Taiwan Lottery Co., Ltd.
CTBC Life Insurance Co., Ltd
CTBC Securities Investments Trust Co., Ltd

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City

SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED BY ANNEX 68-E DECEMBER 31, 2013

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule SRC Rule 68 and 68.1 which consolidates the two separate rules and labeled in the amendment as "Part I" and "Part II," respectively. It also prescribed the additional information and schedule requirements for issuers of securities to the public.

Below are the additional information and schedules required by SRC Rule 68 and 68.1 as amended that are relevant to the Bank. This information is presented for purposes of filing with the SEC and is not required part of the basic financial statements.

Financial Assets

Below is the detailed schedule of financial assets in equity and debt securities of the Bank as of December 31, 2013:

Name of Issuing Entity and Association of Each Issue	Number of Shares	Amount Shown in the Statement of Financial Position	Value Based on Market Quotation at End of Year	Interest Income
Financial Assets at FVPL				
Quoted debt securities:				
Philippine Government (PHP)	n/a	P554,782,110	P554,782,110	P52,273,056
Philippine Government (USD)	n/a	46,099,454	46,099,454	248,100
US Government (USD)	n/a	261,315,409	261,315,409	11,849,865
Total		862,196,973	862,196,973	64,371,021
Derivative assets	n/a	13,180,474	13,180,474	-
		P875,377,447	P875,377,447	P64,371,021
AFS Investments				
Quoted debt securities:				
DBP (USD)	n/a	P47,313,107	P47,313,107	P3,044,318
PSALM (USD)	n/a	54,568,593	54,568,593	6,452,938
Philippine Government (USD)	n/a	330,865,743	330,865,743	27,231,688
Total		432,747,443	432,747,443	36,728,944
Unquoted equity securities:				
BANCNET	50,000	6,940,717	n/a	-
PCHC	21,000	5,000,100	n/a	-
BAP	5,000	500,000	n/a	-
PLDT	14,350	143,500	n/a	-
Total		12,584,317		
Club shares accounted as AFS equity investments:				
Orchard Gold and Country Club	1	160,000	160,000	-
Subic Bay Yacht Club Corporation	1	160,000	160,000	-
Total		320,000	320,000	-
		P1,320,709,207	P1,308,124,890	P101,099,966
HTM Investments				
Quoted debt securities:				
Philippine Government (PHP)	n/a	P151,629,130	P153,904,616	P4,824,709
Philippine Government (USD)	n/a	209,508,472	205,104,900	8,365,789
Total	n/a	P361,137,602	P359,009,516	P13,190,498

Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)

Name of Debtor	Beginning balance	Additions	Collections	Ending Balance
Employee Loans / Total	P23,630,571	P18,291,585	(P17,738,250)	P24,183,906

Capital Stock

Below is the composition of the Bank's capital stock (in thousands):

	Shares	Amount
Common stock - P10 par value		
Authorized	300,000	
Issued and outstanding		
Balance at beginning and end of the year	247,969	P2,479,687

SCHEDULE VI: ***Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements.***

Name and Designation of Debtor	Balance at Beginning Period	Additions	Amounts Collected	Amounts Written Off	Current	Noncurrent	Balance at End of Period
None to report							

Amendment to PFRS 7, Disclosure: 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, Financial Instruments: Presentation. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangements of '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. Gross amounts of those recognized financial assets and recognized financial liabilities;
b. Amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of position;
c. Net amounts presented in the statement of position;
d. Amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   - Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   - Amounts related to financial collateral (including cash collateral); and
e. Net amount after deducting the amounts in (d) from the amounts in (c) above.

Pursuant to the amendments to PFRS 7 requiring the Bank to disclose information about rights to offset and related arrangements, the Bank's financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2013, 2012 and 2011 are as follows (in millions):

	2013					
				Related Amounts not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset in the Statement of Financial Position	Net Amounts of Financial Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
Financial Assets						
Derivatives-trading assets	**P13**	**P -**	**P13**	**P -**	**P -**	**P -**
Derivatives held for risk management	-	-	-	-	-	-
Reverse sale and repurchase, securities borrowing and similar agreements	-	-	-	-	-	-
Loans and advances to customers	-	-	-	**588**	**588**	-
Total	**P13**	**P -**	**P13**	**P588**	**P588**	**P -**
Financial Liabilities						
Derivatives-trading liabilities	**P2**	**P -**	**P2**	**P -**	**P -**	**P -**
Derivatives held for risk management	-	-	-	-	-	-
Sale and repurchase, securities lending and similar agreements	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-
Total	**P2**	**P -**	**P2**	**P -**	**P -**	**P -**

	2012					
		Gross Amounts of Recognized Financial Liabilities Offset in the Statement of Financial Position	Net Amounts of Financial Assets Presented in the Statement of Financial Position	Related Amounts not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized Financial Assets			Financial Instruments	Cash Collateral Received	Net Amount
Financial Assets						
Derivatives-trading liabilities	P3	P -	P3	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Sale and repurchase, securities lending and similar agreements	-	-	-	-	-	-
Customer deposits	-	-	-	501	501	-
Total	P3	P -	P3	P501	P501	P -
Financial Liabilities						
Derivatives-trading liabilities	P4	P -	P4	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Sale and repurchase, securities lending and similar agreements	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-
Total	P4	P -	P4	P -	P -	P -

	2011					
		Gross Amounts of Recognized Financial Liabilities Offset in the Statement of Financial Position	Net Amounts of Financial Assets Presented in the Statement of Financial Position	Related Amounts not Offset in the Statement of Financial Position		
	Gross Amounts of Recognized Financial Assets			Financial Instruments	Cash Collateral Received	Net Amount
Financial Assets						
Derivatives-trading liabilities	P1	P -	P1	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Sale and repurchase, securities lending and similar agreements	-	-	-	-	-	-
Customer deposits	-	-	-	584	584	-
Total	P1	P -	P1	P584	P584	P -
Financial Liabilities						
Derivatives-trading liabilities	P -	P -	P -	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Sale and repurchase, securities lending and similar agreements	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-
Total	P -	P -	P -	P -	P -	P -

The gross amounts of recognized financial assets and financial liabilities and their net amounts as presented in the statements of financial position are on the following basis:

- Derivative assets and liabilities - fair value;
- Assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing - amortized cost;
- Loans and advances to customers - amortized cost; and
- Customer deposits - amortized cost.

The amounts that are offset in the statements of financial position are measured on the same basis.

The tables below reconcile the 'net amounts of financial assets and financial liabilities presented in the statement of financial position', as set out above, to the line items presented in the statement of financial position are as follows (in millions):

		2013			
Types of Financial Assets	***Note***	**Net Amounts**	**Line Item in The Statement of Financial Position**	**Carrying Amount in Statement of Financial Position**	**Financial Assets not in Scope of Offsetting Disclosures**
Derivative-trading assets	*7*	**13**	Other Resources - net	-	-
Derivatives held for risk management		**-**	-	-	-
Reverse sale and repurchase, securities borrowing and similar agreements		**-**	-	-	-
Loans and advances to customers	*8*	**-**	Loans and advances to customers	-	-
Financial Liabilities					
Derivative-trading liabilities		**7**	Derivative liabilities	-	-
Sale and repurchase securities lending and similar agreements	*7*	**-**	-	-	-
Derivatives held for risk management		**-**	-	-	-
Customer depositis		**-**	-	-	-

		2012			
	Note	Net Amounts	Line Item in The Statement of Financial Position	Carrying Amount in Statement of Financial Position	Financial Assets not in Scope of Offsetting Disclosures
Financial Assets			Financial assets at	-	-
Derivative-trading assets	*7*	3	FVPL		
Derivatives held for risk management		-	-	-	-
Reverse sale and repurchase, securities borrowing and similar agreements		-	-	-	-
Loans and advances to customers	*8*	-	Loans and Receivables - net	-	-
Financial Liabilities				-	-
Derivative-trading liabilities	*7*	4	Derivative liabilities		
Sale and repurchase securities lending and similar agreements		-	-	-	-
Derivatives held for risk management		-	-	-	-
Customer depositis		-	-	-	-

		2011			
	Note	Net Amounts	Line Item in The Statement of Financial Position	Carrying Amount in Statement of Financial Position	Financial Assets not in Scope of Offsetting Disclosures
Financial Assets				-	-
Derivative-trading assets	*7*	1	Financial assets at FVPL		
Derivatives held for risk management		-	-	-	-
Reverse sale and repurchase, securities borrowing and similar agreements		-	-	-	-
Loans and advances to customers	*8*	-	Loans and Receivables - net	-	-
Financial Liabilities				-	-
Derivative-trading liabilities	*7*	-	Derivative liabilities		
Sale and repurchase securities lending and similar agreements		-	-	-	-
Derivatives held for risk management		-	-	-	-
Customer depositis		-	-	-	-

COVER SHEET

A S O 9 5 0 0 8 8 1 4 A

S.E.C. Registration Number

CTBC BANK (PHILIPPINES) CORPORATION

[Formerly Chinatrust (Philippines) Commercial Bank Corporation]

(Company's Full Name)

Fort Legend Towers Third Avenue corner 31st Street Bonifacio Global City Taguig City

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

Andre P. Payawal	811-8509
Contact Person	Company Telephone Number

1 2	3 1	A A F S		
Month	*Day*	FORM TYPE	*Month*	*Day*
			Annual Meeting	

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

1 0 4		
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes.

ANNEXES

(Additional Disclosures not included in the
SEC 2013 Annual Report)

Table of Contents

ANNEX 1 : Risk Management System & Structure

BANK'S RISK PHILOSOPY

The Bank operates according to its established risk philosophy, where the Board is responsible for approving, reviewing, supervising and overseeing the Bank's risk strategy, risk policies, risk appetite and risk limits. Following the Board's instruction, the Bank's senior management team and various risk management committees set up independent risk management functions and make sure the risks being properly understood, controlled and managed, in addition to the risk processes which must be clearly aligned with the Bank's business strategies.

This risk philosophy serves as basis for the establishment of its risk management system.

RISK MANAGEMENT COMMITTEE

The Board organized the Risk Management Committee to ensure that the Bank is able to manage its risks taking activities so that it can position itself for better opportunities.
The Risk Management Committee shall be responsible for the development and oversight of the Bank's Risk Management Program. It shall provide general direction and define the risk philosophy of the Bank.

It shall oversee the system of limits to discretionary authority that the Board delegates to management, who will ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

The Committee shall review and approve CTBC BANK (Philippines) Corp. Internal Capital Adequacy Assessment Process. This also includes the review of the bank's Risk Capital Framework (credit, market, liquidity and operational risks), including significant inputs and assumptions.

The core responsibilities of the Risk Management Committee are:

1. Identify and evaluate risk exposures – The Committee shall assess the probability of each reported risk becoming reality including the reported estimate of possible effect and cost. Priority areas of concern are those risks that are most likely to occur and with high adverse impact to the bank when they happen.

2. Develop risk management strategies – The Risk Management Committee shall approve a written plan defining the strategies for managing and controlling the major risks. It shall

approve recommended practical strategies to mitigate the risks, avoid and minimize losses if the risk becomes real.

3. Oversee the implementation of the risk management plan – The Risk Management Committee shall direct the dissemination of the risk management plan and loss control procedures to all affected parties. The Committee shall conduct regular discussions on the institution's current risk exposure based on regular management reports and direct concerned units or offices on how to reduce these risks.
4. Review and revise the plan as needed – The Committee shall evaluate the risk management plan to ensure its continued relevancy, comprehensiveness, and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The Committee shall report regularly to the Board of Directors the entity's over-all risk exposure, actions taken to mitigate the risks, and recommend further action or plans as necessary.
5. Review and update the Risk Management Charter periodically.
6. Review and evaluate Chief Risk Officer performance.
7. Endorse for confirmation of Board of Directors the Performance Rating of the CRO.

Composition :

The Committee shall be composed of at least three (3) members of the Board of Directors including at least one (1) independent director, and a chairperson who is a non-executive member. The members shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It shall oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are take whenever limits are breached. The bank's risk management units and the Chief Risk Officer shall communicate formally and informally to the Risk Management Committee any material information relative to the discharge of its function.

The Risk Management Committee, shall, where appropriate, have access to external expert advice, particularly in relation to proposed strategic transactions, such as mergers and acquisitions.

The Chief Risk Officer being directly reporting to the Risk Management Committee has the following roles and responsibilities:

- To evaluate annually the Bank's internal risk control framework through ICAAP process to satisfy itself on the design and completeness of the framework relative to the Bank's activities and risk profile.

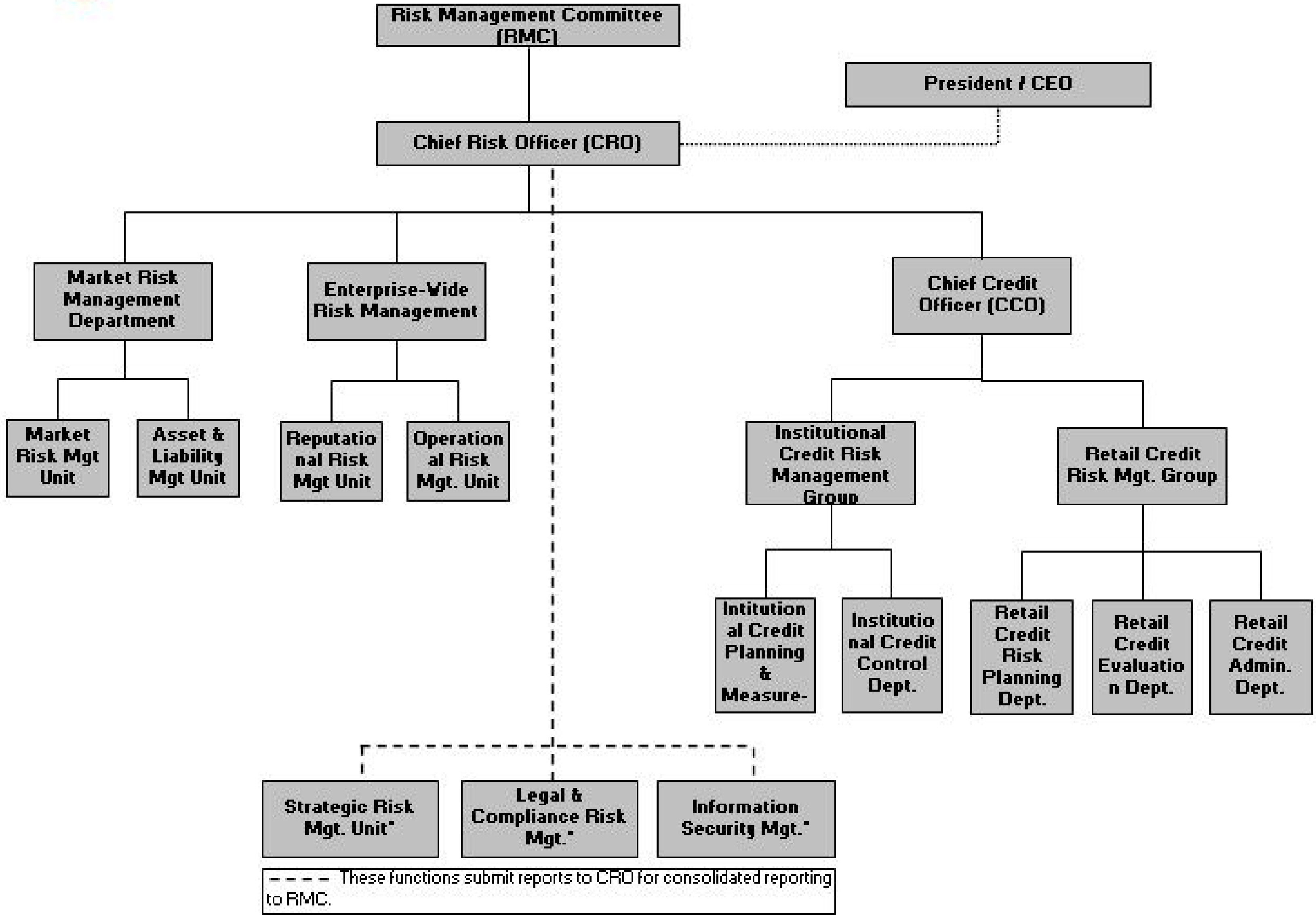
- To consider and recommend to the Board for approval, through the RMC, the Bank's Risk Tolerance and in particular:
  - To recommend to the Board on an annual basis the Bank's Risk Tolerance, including Risk Type Limits for Institutional Credit Risk, Retail Credit Risk, Liquidity Risk and Market Risk for the following year.
  - To consider any breaches of the Bank's Risk Tolerance and each of the approved Risk Type Limits and to recommend whether the Board should approve the reduction plan and/or ratify the excess request.

- To evaluate the Bank's risk profile and risk monitoring, in particular with respect to the following:
  - Risk Appetite.
  - Performance vs. Risk Tolerance.
  - Risk trends.
  - Risk concentrations.
  - Allowance for Loan Losses.
  - Key Performance Indicators for risk.
  - Capital Adequacy

- To review the Bank's liquidity profile and recommend the overall liquidity risk framework (including Risk Tolerance) to the Board, including the results of different stress tests and test assumptions.
- To evaluate the appropriateness of the Bank's risk measurement systems including Daily Value at Risk and any significant credit risk measurement system such as Internal Rating System.
- Undertake other duties/functions that may be assigned.
- The Chief Risk Officer shall be appointed and replaced with prior approval of the Board of Directors. In case of replacement, the Bank shall report to Supervision and examination Sector of BSP within five (5) days from the time it has been approved by the Board of Directors.

CTBC BANK
中國信託銀行

Chief Risk Officer Reporting Line and Risk Management Organizational Structure Chart



The following are the different Risk Groups governed by the CRO:

- Institutional Credit Risk Management Group (ICRMG)

  ICRMG manages the credit risk arising from the Bank's corporate loans.

- Retail Credit Risk Management Group(RCRMG)

  RCRMG manages the credit risk arising from the Bank's consumer loans (personal loans & mortgage loans). It formulates credit policies based on the methodical studies of the behavior, i.e. credit-worthiness, aspect of the target market. RCRMG conducts a regular portfolio review. It analyzes and monitors the profiles and trends in its portfolio. Part of the function is the accreditation of the external collection agencies, which facilitates the recovery of the non performing assets.

  While ICRMG & RCRMG have their specialized scope in terms of credit risks, their main responsibilities are as follows:

  a. Review the quality of the Bank's credit portfolio and the trends affecting the portfolio.
  b. Endorse credit policies and oversee the effectiveness and administration of credit-related policies.
  c. Review the adequacy of allowance for loan losses.
  d. Establish the parameters for credit risk and asset concentration and review compliance with such limits.
  e. Provide oversight of management and guidance to the Board on credit risks and credit-related issues.

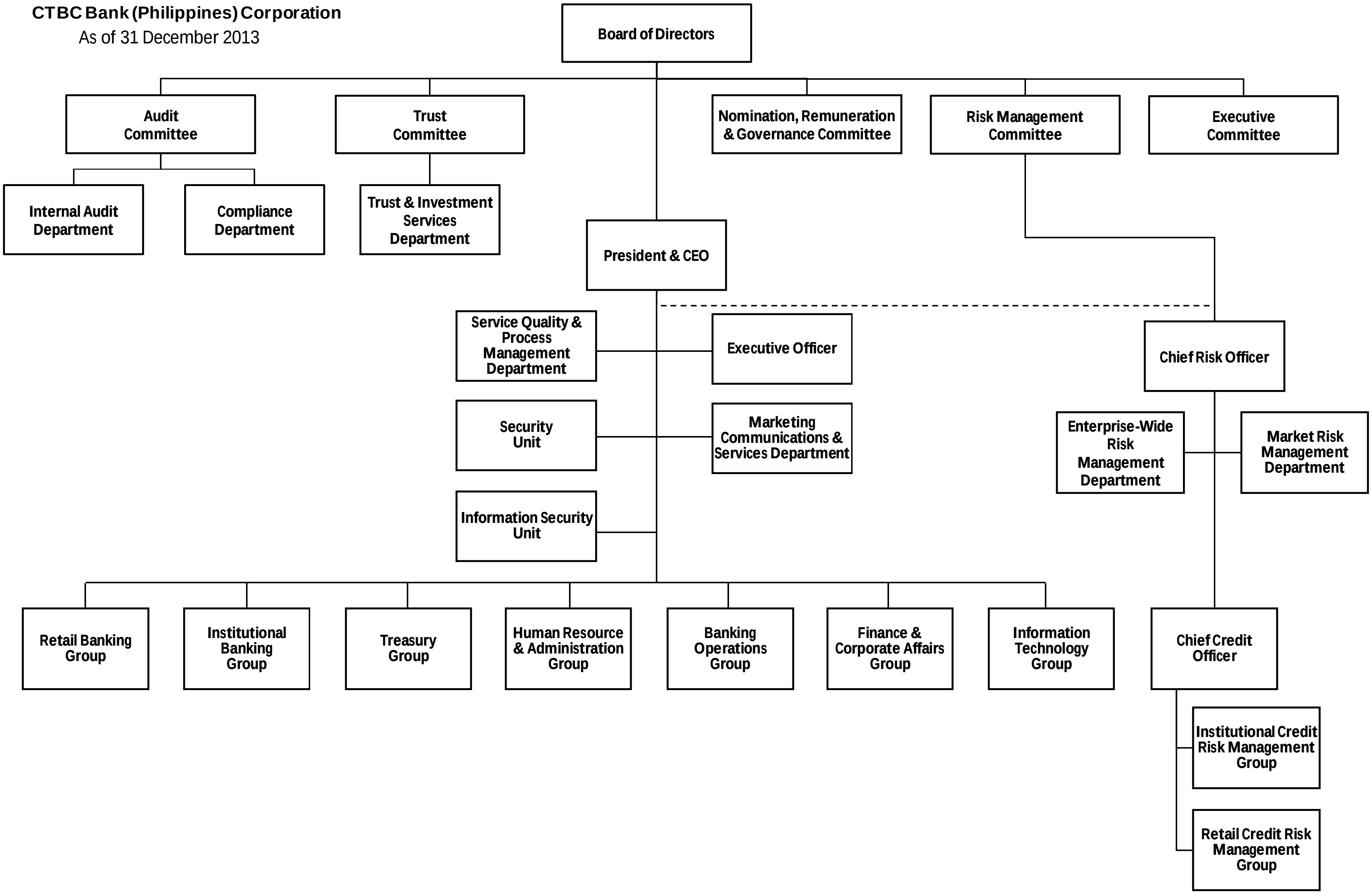
- Market Risk Management Department (MRMD)

  a. MRMD manages the market risk, liquidity risk and interest rate risk in the banking book. It sets limits by taking into account the market predictions, capital, annual budgets, experience of the risk taking units and the Bank's risk appetite.
  b. Review Assets and Liabilities management.
  c. Review and recommend Investment strategies.
  d. Endorse Market, Liquidity Risks, and IRRBB policies and oversee the effectiveness and administration of such policies.
  e. Review and establish parameters for Market, Liquidity Risks, and IRRBB as well as investments concentration and evaluate compliance with such limit.
  f. Provide oversight of management and guidance to the Board on Market and Liquidity Risks and related issues.
  g. Review and recommend to the Board the appropriate Liquidity levels.
  h. Review the Contingency Funding Plan

- Enterprise Wide Risk Management Department (EWRMD)
  a. EWRMD handles the consolidation of all risks reported by each risk monitoring unit. All risks are assessed, evaluated, monitored and reported to RMC with appropriate recommendations as consolidated by EWRMD. Also, EWRMD ensures the implementation of all RMC policies and directives.
  b. EWRMD is also accountable for operational risk monitoring and management of the Bank.
  c. EWRMD reviews the important strategies and policies of new product program; periodically review operational risk reports and should monitor the execution of action plan for major operational risk event.
  d. Promote the risk-aware organization culture, develop and continuously improve the operational risk management framework and approach, establish risk assessment approach establish operational risk indicators, monitor the change of operational risk.
  e. Supervision of the softer risks like the reputational risk management is part of the EWRMD functions.
  f. Responsible for monitoring high risk areas of concern, particularly those that may impact our Bank's financials.

ANNEX 2 : BANK'S ORGANIZATIONAL CHART

CTBC Bank (Philippines) Corporation
As of 31 December 2013



ANNEX 3 : CAPITALSTRUCTURE & CAPITAL ADEQUACY

The Capital Adequacy Ratio, as of December 31, 2013

Total Qualifying Capital	Amount (In Million PHP)	
Adjusted Tier 1	6,246.037	See Breakdown
Adjusted Tier 2	189.787	See Breakdown
Total Qualifying Capital (sum of Tier 1 & Tier 2)	**6,435.824**	
Total Risk Weighted Assets (RWA)	**Amount**	**Minimum Capital Requirement**
Total Credit RWA	18,931.475	1,893.148
Total Market RWA	2,122.022	212.202
Total Operation RWA	3,705.243	370.524
Total risk-weighted assets	**24,758.739**	**2,475.874**
Tier I Capital Adequacy Ratio	**25.228**	
Total Capital Adequacy Ratio	**25.994**	

Breakdown of Bank's Capital

Item	Nature of Item	Amount (In Millions PHP)	Amount (In Millions PHP)
A. Tier 1 Capital			
A.1	Core Tier 1 Capital		
(1)	Paid-up common stock		2,479.687
(2)	Additional paid-in capital		53.514
(3)	Retained earnings		3,757.633
(4)	Undivided profits		187.348
(5)	Cumulative foreign currency translation		-1.357
A.2	Deductions from Core tier 1 Capital		
(1)	Common stock treasury shares (for consolidated basis)	15.952	
(2)	Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI (net of specific provisions, if any), and unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates (net of specific provisions, if any) referred to in Circular No. 560	6.551	
(3)	Deferred income tax (net of allowance for impairment, if any)	208.285	
(4)	Total Deductions		230.788
A.3	Total Tier 1 Capital		6,246.037
B. Tier 2 Capital			
(1)	General loan loss provision (limited to 1.00% of credit risk-weighted assets)	189.787	
(2)	Total Tier 2 Capital		189.787
C. Gross Qualifying Capital			
(1)	Tier 1 Capital	6,246.037	
(2)	Tier 2 Capital	189.787	
D. Deductions from Tier 1 fifty percent (50%) and Tier 2 fifty percent (50%) capital			0.000
(3)	Net Tier 1 Capital 1/ {C (1) minus [D (13) times 50%]}	6,246.037	
(4)	Net Tier 2 Capital 1/ {C (2) minus [D (13) times 50%]}	189.787	
E.	**TOTAL QUALIFYING CAPITAL**		**6,435.824**

ANNEX 4 : CREDIT RISK

A. QUANTITATIVE INFORMATION, as of December 31, 2013

1. Breakdown of Risk Weighted Assets

Credit Risk-Weighted Assets	Amount in Millions PHP
On-Balance Sheet Assets	18,625.996
Off-Balance Sheet Assets	333.504
Assets in the Trading Book (Derivatives and Repo-style Transactions)	19.204
Total Gross Risk-Weighted Assets	**18,978.704**
Deductions : General loan loss provision [in excess of the amount permitted to be included in Upper Tier 2]	(47.229)
Total Credit Risk-Weighted Assets	**18,931.475**

2. Credit Risk Exposures : On-Balance Sheet Assets

EXPOSURE TYPE	Exposures not Covered by CRM	TOTAL RISK WEIGHTED EXPOSURES
Sovereign Exposures	6,595.005	270.187
Sovereign Exposures - Non Resident	0.000	0.000
Multilateral Development Banks	0.000	0.000
Bank (excluding loans)	3,023.350	2,045.276
Interbank Loans		
Interbank Call Loans	0.000	0.000
Interbank Term Loans	768.000	768.000
Local Government Units	0.000	0.000
Government Corporation	54.569	54.569
Corporate Exposures	10,135.899	10,135.899
Micro, Small, and Medium Enterprise (MSME)	0.000	0.000
Housing Loans	941.034	499.678
Loans to Individuals	3,651.061	3,651.061
Defaulted Exposures		
Housing Loans	30.071	30.071
Loans other than Housing Loans	168.457	252.686
Other Defaulted Exposures	0.000	0.000
ROPA	9.455	14.183
Other Exposures		
Cash on Hand	344.683	0.000
Cash & Other Cash Items	45.959	9.192
Other Assets	895.195	895.195
TOTAL	**26,662.738**	**18,625.996**

Breakdown per Exposure Type & Risk Buckets

EXPOSURE TYPE	Exposures, Net of Specific Provisions	Exposures Covered by CRM 2/	Exposures not Covered by CRM	Risk Weights							TOTAL RISK WEIGHTED EXPOSURES
				0%	20%	50%	75%	100%	150%	TOTAL	
Sovereign Exposures	6,595.005	0.000	6,595.005	6,054.631	0.000	540.374	0.000	0.000	0.000	6,595.005	270.187
Sovereign Exposures - Non Res 1/	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Multilateral Development Banks 1/	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Bank (excluding loans) 1/	3,023.350	0.000	3,023.350	0.000	108.521	1,782.515	0.000	1,132.315	0.000	3,023.350	2,045.276
Interbank Loans 1/											
Interbank Call Loans	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Interbank Term Loans	768.000	0.000	768.000	0.000	0.000	0.000	0.000	768.000	0.000	768.000	768.000
Local Government Units	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Government Corporation	54.569	0.000	54.569	0.000	0.000	0.000	0.000	54.569	0.000	54.569	54.569
Corporate Exposures 1/	10,702.202	566.303	10,135.899	0.000	0.000	0.000	0.000	10,135.899	0.000	10,135.899	10,135.899
Micro, Small, and Medium Enterprise	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Housing Loans	941.034	0.000	941.034	0.000	0.000	882.712	0.000	58.322	0.000	941.034	499.678
Loans to Individuals	3,651.061	0.000	3,651.061	0.000	0.000	0.000	0.000	3,651.061	0.000	3,651.061	3,651.061
Defaulted Exposures											
Housing Loans	30.071	0.000	30.071	0.000	0.000	0.000	0.000	30.071	0.000	30.071	30.071
Loans other than Housing Loans	168.457	0.000	168.457	0.000	0.000	0.000	0.000	0.000	168.457	168.457	252.686
Other Defaulted Exposures	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
ROPA	9.455	0.000	9.455	0.000	0.000	0.000	0.000	0.000	9.455	9.455	14.183
Other Exposures											
Cash on Hand	344.683		344.683	344.683						344.683	0.000
Cash & Other Cash Items	45.959		45.959		45.959					45.959	9.192
Other Assets 1/	895.195		895.195					895.195		895.195	895.195
TOTAL	**27,229.041**	**566.303**	**26,662.738**	**6,399.314**	**154.479**	**3,205.601**	**0.000**	**16,725.431**	**177.912**	**26,662.738**	**18,625.996**

1/ Risk weight used is based on the external credit assessment institutions like Standard & Poor's , Moody's, and Fitch's credit rating.
2/ Credit risk mitigants are mainly cash deposit collateral.

3. Credit Risk Exposures : Off- Balance Sheet Assets

EXPOSURE TYPE *(Amounts in Millions PHP)*	Notional Principal Amount	Credit Equivalent Amount	Risk Weight Bucket 1/	Credit Risk Weighted Assets
Financial standby letters of credit - foreign	44.395	44.395	100%	44.395
Performance Standby LCs – domestic (net of margin deposit) established as a guarantee that a business transaction will be performed	369.063	184.532	100%	184.532
Performance Standby LCs – foreign (net of margin deposit) established as a guarantee that a business transaction will be performed	66.593	33.296	100%	33.296
Trade related guarantees – shipside bonds/airway bills	5.121	1.024	100%	1.024
Sight LCs - domestic (net of margin deposit)	6.578	1.316	100%	1.316
Sight LCs - foreign (net of margin deposit)	181.728	36.346	100%	36.346
Usance LCs - foreign (net of margin deposit)	162.978	32.596	100%	32.596
Spot foreign exchange contracts (bought and sold)	1,478.441	0.000	100%	0.000
Late deposits/payments received	12.650	0.000	100%	0.000
Trust department accounts	1,055.593	0.000	100%	0.000
Items held for safekeeping/custodianship	1.339	0.000	100%	0.000
Items held as collaterals	0.002	0.000	100%	0.000
Other Contingent Accounts	1,473.914	0.000	100%	0.000
TOTAL	**4,858.395**	**333.504**		**333.504**

1/ Risk weight used is based on the external credit assessment institutions like Standard & Poor's, Moody's, and Fitch's credit rating.

B. QUALITATIVE INFORMATION

Credit risk is the risk that one party to a financial transaction will fail to honor an obligation and cause the Bank to incur a financial loss. Credit risk arises primarily from the Bank's corporate and consumer loans (customer credit risk) and investment securities (issuer credit risk). Assessment of credit risk varies based on the types of the loan or financial transaction. For consumer loans, credit risk is measured at a portfolio level. However, identification of risk is determined on customer segment performance to derive risk-ranking determinants that constitute the formulation of the credit application scorecard. To ensure consistency in the identification of credit risk, scorecard performance is reviewed monthly to assess its efficiency in its risk determination function.

Credit risk management will be discussed in two parts:

1. Credit Risk covering Corporate Loans – managed and controlled by Institutional Credit Risk Management Group (ICRMG).

2. Credit Risk covering Retail Loans - managed and controlled by Retail Credit Risk Management Group (RCRMG).

CREDIT RISK COVERING CORPORATE LOANS

I. Strategies & Processes

Each credit proposal undergoes an evaluation process in order to determine its acceptability. The evaluation process involves the identification of credit risks after having assessed key factors including, target market/industry, management, appropriateness of credit facilities, terms and conditions, financial performance and condition, collateral and others.

The credit risk framework also consists of an internal risk rating system that has a blend of both quantitative and qualitative factors. The Obligor's risk rating ranges from ORR 1 to 17, with ORR 1 being the highest and 14 to 17 representing the classified accounts (Especially Mentioned to Loss).

Non-Performing Loan (NPL) ratio has been identified as the Bank's basis for risk appetite. NPL ratio was selected as it is believed to be the primary measurement of a Bank's loan portfolio quality. The NPLs also serve as one of the trigger for the specific loan provisioning exercise that directly impacts the profit and loss statement, and ultimately the Institution's equity through retained earnings. In establishing the range of risk tolerance, CTBC Bank, Phils. evaluates its own historical NPL levels and compares these with that of the banking industry.

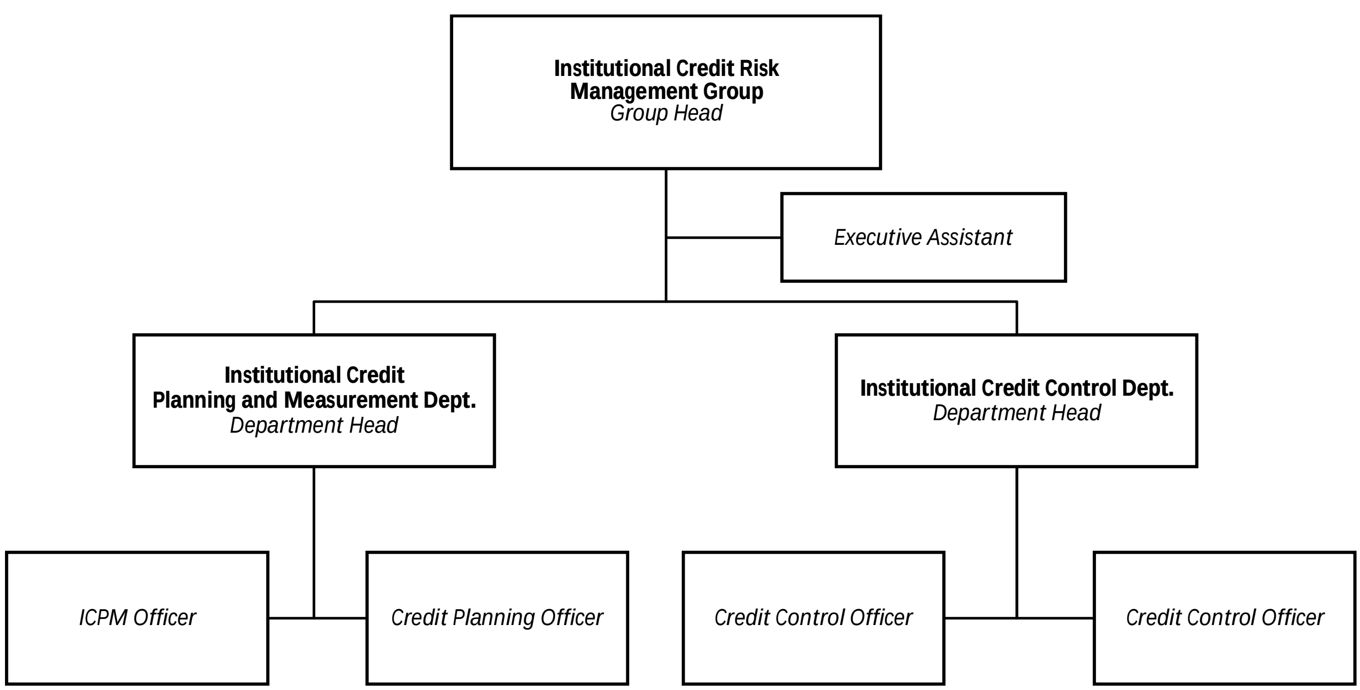
Points considered in the setting up of the risk appetite are as follows :

- Average NPL in the last 2 years and including the projected NPL in the following year.
- Latest Industry NPL Ratio.

In additional to NPL as a basis for risk appetite, the Bank also continues to observe industry limits as per its internal guidelines.

The approval process of the banks risk appetite for corporate credit begins with a discussion/consultation/ during a Credit Committee meeting convened annually, after the Bank's budget has been approved. While NPL ratio and industry exposures have been identified as core indicators, others may be introduced and considered to further define the Bank's risk appetite. Once evaluation has been completed, specific risk appetite factors, as well as proposed ranges of tolerance are endorsed by the Credit Committee to the RMC which holds the required approving authority.

II. Structure & Organization



The main responsibilities of CTBC Bank, Phils.' Institutional Credit Risk Management Group are as follows:

- Evaluate, endorse or approve credit proposals originating from IBG
- Review the quality of the Bank's institutional credit portfolio and the trends affecting the portfolio.
- Endorse credit policies and oversee the effectiveness and administration of credit-related policies.
- Review the adequacy of allowance for loan losses.
- Establish the parameters for credit risk and asset concentration and review compliance with such limits.
- Provide oversight of management and guidance to the Board on credit risks and credit-related issues.

III. Scope & Nature of Risk Reporting and Measurement Systems

Scope and Nature

- Loan Review Report (LRR) / Early Warning 1, 2 and 3 (EW1, EW2 and EW3) / Account Planning Reports

One of the Bank's risk monitoring exercises is its semi-annual review of corporate accounts via the LRR. Exempted from this are accounts fully-secured by cash or government securities, and classified accounts. The LRR, accomplished six (6) months after approval date, covers the borrower's relationship with the bank, updated financial performance, repayment capability, identification of major risks, outlook, etc. It also assesses account classification and ORR. If deterioration in credit is discovered, either Institutional Banking Group (IBG) or Institutional Credit Risk Management Group (ICRMG) discretion to include it in any of the EW buckets, which calls for the submission of a Notification report, quarterly or more frequent LRR (for EW1 accounts), and Account Planning reports (for EW2, EW3, and Problem accounts) Apart from these, the RM is required to provide updates during the last Credit Committee meeting of each month.

The RM and Litigation Head of Legal Department are also required to report to the Credit Committee the status of the classified accounts at least twice a month and once a month for an EW account. Depending on the outstanding exposure of an EW2/EW3 account, the Relationship Manager (RM) regularly prepares the Account Planning reports for approval either of the Credit Committee or Executive Committee. For Problem accounts, the Account Planning report is to be prepared bi-monthly regardless of outstanding exposure. The Account Planning report covers the loan details of the account including the outstanding principal, loan loss provision, the action plan and present status of the account which includes the progress diary enumerating the series of events that took place covering the Account Planning period and financial/operation analysis.

Monthly classified accounts are also being prepared by Institutional Credit Risk Management Group for the senior management guidance covering the list of classified accounts and its corresponding loan loss provision.

Lastly, the ICRMG Head regularly reports to the Risk Committee the Corporate Credit Risk Profile including, but not limited to the Past Due Loans, Non

Performance Loans, Concentration Risks and the Action Plan for each Non Performing account, as well as their corresponding timelines. The ICRMG Head's report also includes the Performance Review which summarizes the actual performance versus projected performance, based on month-end and year-end budgets covering Non Performing Loans and Loan Loss Provisions.

- Credit Committee

The Credit Committee is responsible for the granting of credit covering Corporate Loans, either through an endorsement or approval. It instills discipline for the orderly and prudent of granting of credit to corporate borrowers.

The Committee is composed of the President, Group Head of Institutional Banking Group, Group Head of Institutional Credit Risk Management. It is chaired by the President.

Aside from granting credit for corporate borrowers, the committee also oversees the status of all classified and/or NPL accounts, and all EW accounts.

The committee meets at least twice a month.

- Risk Management Committee

The Risk Management Committee is responsible for the development and oversight of the Bank's Risk Management Program. Provides general direction and defines the risk philosophy of the Bank.

Measurement Systems

As mentioned above, the Bank's credit risk identification framework also consists of an internal risk rating system that has a blend of both quantitative and qualitative factors. The Obligor's risk rating ranges from ORR 1 to 17, with ORR 1 being the highest and 14 to 17 representing the classified accounts (Especially Mentioned to Loss).

IV. Strategies and Processes for Mitigating Risks

- Internal Lending Limit

a. Limit of SINGLE BORROWER / GROUP (Bankwide Portfolio)

- Single Borrower/Group Limit – shall not exceed 100% of SBL (SBL= 25% of CTBC Bank Phils' net worth);
- The Single Group definition shall be based on BSP's regulation.
- The Bankwide Portfolio includes contingent liabilities.

b. Limit of Real Estate Industry (Bankwide Portfolio)

- Shall not exceed 20% of the total loan portfolio, net of interbank loans;
- Real Estate Industry classification will be based on BSP's regulation on Real Estate Loans.

c. Limit of Industries (IBG Portfolio)

- Shall not exceed 25% of the IBG loan portfolio.
- Any increase in Single Industry Limit, from 25% up to maximum of 30% of the total IBG Loan Portfolio, shall be evaluated on a case-by-case basis and will be subject to Parent Bank's International Credit Committee (ICC) endorsement and CTBC Bank, Phils. EXCOM approval.

- Notes:
  a. For those conglomerate groups which covers several industries, industry distribution will be proportioned based on the revenue contribution from each industry subject to Chief Risk Officer (CRO) approval.
  b. Bank Money Market lending to be excluded from IBG loan portfolio.
  c. Industry classification shall be based on the nature of business of the obligor/borrower. However, for individual obligors, industry classification shall be based on the purpose of the loan.

d. Industry Classification will be based on Parent Bank's definition (including contingent liabilities).

- Limit of Top 10 Borrowers (IBG Portfolio)
  - Shall not exceed 60% of the Total IBG Loan Portfolio.
  - Any specific loan exposure of the Top 10 Borrowers which are fully secured by cash deposits or unconditionally guaranteed by the Republic of the Philippines (ROP) shall be excluded from the total loan exposure.

- Government Agencies, credit secured by Republic of the Philippines (ROP) or 100% owned by the Government, credit secured by cash deposit, shall be excluded from the limit.

- The Monitoring Mechanism

Limit Trigger

Set up limit-trigger for Single Borrower/Group and for single industry, when the exposure reaches the trigger point, an appropriate action must be done immediately.

a. **For Single Borrower/Group** (Bankwide Portfolio) - 95% of the limit for Single Borrower/Group.

b. **For Real Estate Industry** (Bankwide Portfolio) - 95% of the limit for Real Estate Industry.

c. **For Industries** (IBG Portfolio) - 95% of the limit for all industries.

Once the exposure reaches the trigger point, an Action Plan with report analysis should be prepared by related RMs of IBG for Credit Committee approval within five (5) banking days from occurrence of the excess. For Single Borrower's and Real Estate Industry Limits, no new availments are allowed.

d. Single Borrower Concentration

To manage the Bank's overall exposures to a single borrower or group of companies, each related borrower and its credit facilities, as well as group limits are indicated in each proposal. All related borrowers are expected to be presented either for approval or review at the same time. To further strengthen control, a Group ORR sheet and Group Limit Summary are accomplished and signed by the appropriate officers and approving authorities. The Group ORR sheet establishes a single rating for an entire group of borrowers in consideration of each individual entity's rating coupled with the size of their respective credit facilities. Meanwhile, Group Limit Summary lists all facilities of each borrower, as well as their ratings. This enables the approvers to have an overall view of each group in a single report.

Definition of a Group

Apart from the definition provided by regulatory authorities, a corporation or a natural person may be included in the group as long as the Bank's credit officer deems there is an underlying relationship.

Policy

1. As long as the bank has corporate banking credit exposure to related corporations or natural persons, we shall treat them as the same group according to the bank's definition.

2. The credit risk exposure of the same group shall be in compliance with both legal lending limit, internal lending limit and BSP rules and regulations.

3. The calculation of credit approval authority of the group should be based on aggregated group exposure and weighted average rating. In case a group is divided into packages (sub-groups) or obligors, the approval authority shall be based on aggregated exposure and weight average rating of respective packages or standalone obligors.

4. To determine packages and standalone obligors within the group, business and credit sides of originating unit shall reach consensus first, such consensus should be approved by CTBC Bank Phils. Excom.

5. In case any member of the group is deteriorating, the whole group should be reviewed as to whether the credit limit should be reduced, frozen, or withdrawn.

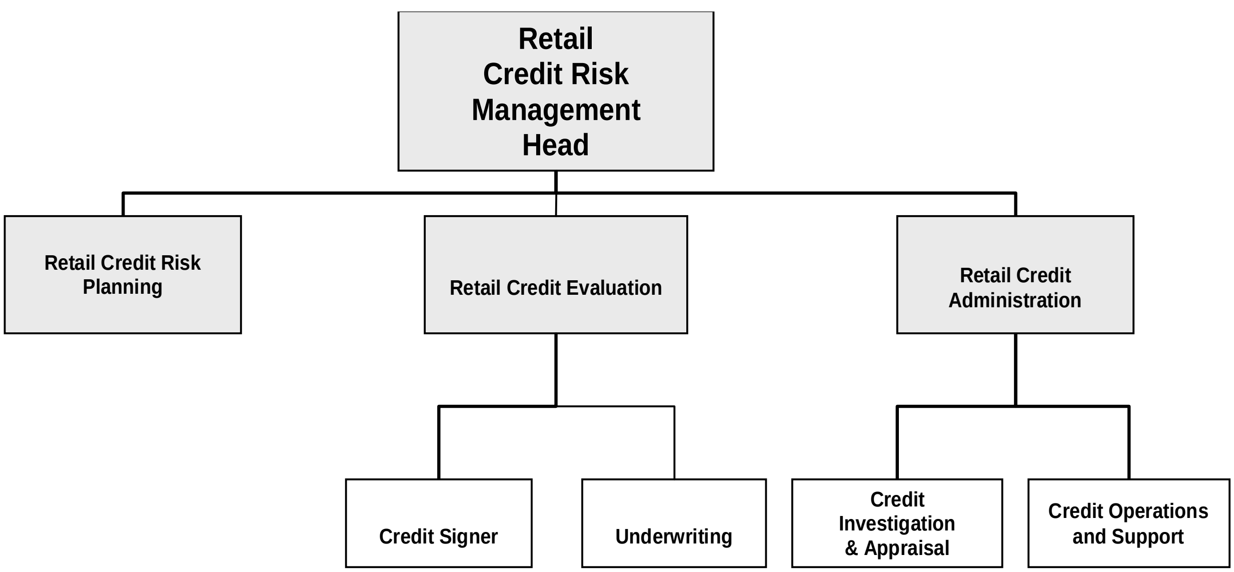
CREDIT RISK COVERING RETAIL LOANS

I. Strategies & Processes

Retail Credit Risk Management Group or RCRMG manages the credit risk arising from the Bank's consumer loans (personal loans & mortgage loans). It formulates credit policies based on the methodical studies of the behavior, i.e. credit-worthiness, aspect of the target market and oversee the effectiveness, implementation, and administration of these policies. RCRMG establishes the parameters for retail credit risk and reviews compliance with such limits.

It handles risk assessment and implements credit control to safeguard retail portfolio asset quality. It conducts regular portfolio review by analyzing and monitoring the profiles and trends in its portfolio to provide risk identification and risk mitigation strategies. Results of these reviews are provided as management information and guidance of the Risk Management Committee and consequently, the Board of Directors.

II. Structure & Organization



Core responsibilities of Retail Credit Risk Management is summarized as follows:

a. Review the quality of the Bank's credit portfolio and the trends affecting the portfolio behavior.
b. Formulate credit policies and oversee the effectiveness, implementation, and administration of these policies.
c. Review the adequacy of allowance for loan losses.
d. Establish the credit risk parameters and asset concentration and review compliance with such limits.
e. Provide oversight of management and guidance to the Board on retail credit risks and credit-related issues.
f. Handles risk assessment and control in retail loan application processing
g. Responsible for credit investigation and appraisal, document custodianship, and insurance administration

RCRMG is composed of three departments to carry out its mandate of managing retail credit risk.

Retail Credit Risk Planning manages credit policy review, formulation and supervision based on empirical data and sound analyses. Enhancements or creation of new policies are instituted based on progression, completion, and analysis of the performance of a test program or changes to business initiatives or market behavior as evidenced by analytics. The team is also responsible in generating risk monitoring tools such as, but not limited to, monthly asset quality reports and risk management committee reports, manages scorecard implementation, monitoring and reviews.

Retail Credit Evaluation handles risk assessment and control in retail loan application processing covering pre-screening, verification, evaluation and decision in granting loans to eligible borrowers. The over-all evaluation process makes use of an application scorecard (for regular, new to bank applications) and a behavioral scorecard (for existing accounts) engines which were developed to put in place predictive tools to discriminate between potential good and bad accounts. Likewise, fraud detection checkpoints are also in place to weed out fraudulent applications through rational screening, data matching and verification through active participation in data sharing with other BAP-member banks via the BAP-Credit Bureau.

The **Retail Credit Administration Department** is responsible for credit investigation and appraisal, document custodianship, and insurance administration. The team observes the CI code of ethics in information validation and data gathering activities to establish the credit worthiness of mortgage loan applicants. It is guided by internal policies and generally accepted appraisal principles in determining collateral value. Likewise, it utilizes a systematic document monitoring and custodianship process to ensure safety of collateral documents.

III. Scope & Nature of Risk Reporting and Measurement Systems

Retail Credit regularly conducts a portfolio performance review of its retail loan products covering loan origination, account maintenance and account closures. In addition, segmentation analysis is accomplished to identify the biggest contributor to defaulting loans as well as distinguish factors or variables positive to the portfolio.

For product and portfolio performance monitoring, review and analysis, the following reports summaries are utilized:

1. Retail Credit Risk Management Report is a portrait of the retail loan portfolio on a monthly basis. Alongside the presentation of the risk indicators such as non-performing loans (NPL), default rates (delinquency ratios), charge-off, aging flows, recoveries, et al; are information on the portfolio’s performance by segments for pricing, industry, income and others. Likewise, approval rates, description on reject and deviations, vintage performance and scorecard performance are also included.
2. Risk Management Committee reports are produced and presented to the members of the committee every 2 months. This report contains statistical and analytical data on portfolio growth, portfolio mix, portfolio asset quality indicators as well as through the door information on loan origination and loan portfolio profile.

IV. Strategies and Processes for Mitigating Risks

Risk assessment is present through the use of credit scorecards (specific to Public Personal Loans only) while implementation of risk caps (program and deviation) and execution of a risk criteria review process (rule-based criterion) is performed across the three retail loan products. In the normal scenario, existing approval authorities are granted based on qualification, competence and capacity. The approving authority hierarchy follows core credit policy set by parent bank such that credit delegation is defined by credit officer and senior credit officer levels by amounts and by risk level in evaluation and approval of its credit loan applications respective of the product.

In line with the foregoing, risk identification is performed through the following process workflows:

Process	Public Personal Loan	Corporate Personal Loan	Housing / Mortgage Loan
Pre-screening	Y	Y	Y
Duplicate Check	Y	Y	Y
Policy Check	Y	Y	Y
Credit Scorecard	Y	N	N
Credit Verification	Y	Y	Y
Appraisal	N	N	Y
Deviation Review	Y	Y	Y
Approval / Reject	Y	Y	Y

For new-to-bank Public Personal Loan applications, the use of a credit application scorecard measures the propensity of the customer to turn good or bad.

Score cut-offs are established to identify the risk classification of customers. Score cut-off in-place is at = or > 1261 for loan applications to proceed to credit evaluation. Scores lower than the cut-off are either subjected to stricter assessment or rejected due to failed score depending on the set cut-off for ‘referral’ and ‘outright reject’.

For existing Public Personal Loan applications, the use of a behavioural scorecard classifies customer risk level.

Score Range	Risk Classification
≦896	High Risk
≦1252	Medium High Risk
≦1398	Medium Risk
≦1440	Medium Low Risk
>1441	Low Risk

For Corporate and Mortgage Loans, a set of eligibility criteria to assess initial acceptability of the loan application is in-place. The policies and guidelines covering these criteria are stipulated in the 3-level document framework such that:

1. Policies (Governance, Global Retail Credit Policy) are established by the Parent Bank

2. Guidance / Principle (Product Guideline) provides an overview of the business strategy and defined management guidelines including product features, eligibility criteria, account management and approval guidelines as approved by CTBC Bank Phils. Board.

3. Procedures and Working Manual details

    a. The business and credit policies and operating level procedures managed by each department ((Product) Procedure) approved up to the Bank President.
    b. Defines the daily operational procedures for each business execution (Working Manual) as approved by the Retail Banking Group Head and each related Group Head; and
    c. Defines the daily operational procedures for each business execution (Working Manual) as approved by the Retail Banking Group Head and each related Group Head; and
    d. Defines the forms and documents utilized by users to perform business activities as approved by related Department Heads

Amendments or enhancements to the above documents require a review of all stakeholders as well as our respective Head Office counterparts (except for the working manual) to ensure the following:

1. Compliance to the global risk policy framework
2. Consistency to the local business and product objectives; and
3. Establishment of the policies and process that will govern the business and product

In addition, amendments to the fundamental policy/ies may only be instituted from a progression, completion and analysis of performance of a test program or changes to business initiatives or market behaviour as evidenced by empirical data; still subject to respective approval hierarchy.

The foregoing policy guideline framework is instituted for all products under Retail Credit.

ANNEX 5 : MARKET RISK

A. QUANTITATIVE INFORMATION, as of December 31, 2013

MARKET RISK-WEIGHTED ASSETS

Item	Nature of Item	Amounts in P0.000 Million
A.	Using Standardized Approach	
A.1	Interest Rate Exposures	785.732
A.2	Equity Exposures	0.000
A.3	Foreign Exchange Exposures	1,336.290
A.4	Options	0.000
A.5	Sub-total (Sum of A.1 to A.4)	2,122.022
B.	Using Internal Models Approach	
C.	TOTAL MARKET RISK-WEIGHTED ASSETS	4,244.043

B. QUALITATIVE INFORMATION

I. Strategies & Processes

The Bank divides market risk exposures into either trading or non-trading portfolios:

- The trading portfolio includes positions arising from trading activities, which aim at benefiting from short-term price movements, such as proprietary trading and market making.
- The non-trading portfolio includes positions not held for the purpose of earning capital gain.

The Market Risk Management Policy and Asset and Liability Management Policy are the cornerstone of managing market risk-taking and non-trading purpose activities in the Bank. These policies are developed to establish the Bank's risk management mechanisms, to facilitate risk communication within the Bank, and to provide proper management.

II. Structure & Organization

The RMC supervises the compliance and accomplishment of the Policy and provides the general direction and defines the risk philosophy of the Bank. While CRO evaluates annually the Bank's internal control and assurance framework to satisfy itself on the design and completeness of the framework relative to the Bank's activities and risk profile.

Market Risk Management Department (MRMD) is responsible in managing market risk. MRMD performs the second line of defense. It is responsible for designing and executing appropriate identification, measurement, monitoring, control and reporting of market risk; and developing the market risk management policy and relevant procedures; and monitoring and reporting overall market risk profile and limit utilization.

III. Scope & Nature of Risk Reporting and Measurement Systems

Market risk is the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level, volatility or correlation of market risk factors, such as interest rates (including credit spread), foreign exchange, equities and commodities. The market liquidity of these types of instruments is also covered. The Bank's market risk originates from its holdings in its foreign exchange instruments and debt securities.

MRMD shall define appropriate and consistent market risk measurement methodologies in line with the business characteristics and risk source to properly evaluate the primary market risk exposure. The measurement results shall be applied to daily management and shall serve as a foundation for market risk planning, monitoring, and controlling. The most common measurements include:

a. Value at Risk, (VAR)

The VaR model has been developed as an independent and reliable quantitative technique for internal risk management purpose, and will be continually refined to meet the quantitative and qualitative standards of IMA (Internal Model Approach) requirements.

b. Stress Testing

Stress testing is used to from extreme market events or scenarios. Stress testing measures the calculate a range of trading exposures which result impact of exceptional changes in market rate/price, volatility or correlation in the fair value of trading portfolios as a supplement to VaR which is unable to capture the tail risk.

c. Factor Sensitivity

Factor sensitivity is measured to monitor the cross-product exposures within each risk type, including but not limited to foreign exchange and interest rate, equity. PVBP, the change in fair value as the yield curve parallel shifts up by 0.01% (1bp), is used to measure interest rate risk exposures of the Bank's trading portfolios. And FX Delta, the change in net present value as the foreign exchange rate moves up by one unit, 100%, is used to measure foreign exchange risk exposure of the Bank's trading portfolios.

IV. Strategies and Processes for Mitigating Risks

To manage the exposures within an acceptable level, the Bank may reduce the exposure or apply hedging measures upon internal approval to transfer the overall level of risk profile of a portfolio.

ANNEX 6 : OPERATIONAL RISK

A. QUANTITATIVE INFORMATION, as of December 31, 2013

OPERATIONAL RISK-WEIGHTED ASSETS (Amounts in Millions PHP)

Nature of Item	Gross Income (GI)	Capital Charge Factor	Capital Requirement (Capital Charge Factor x GI)
BASIC INDICATOR APPROACH (BIA)			
Year 3	1,997.161	0.150	299.574
Year 2	1,994.671	0.150	299.201
Last Year	1,936.556	0.150	290.483
Average	(Capital Requirement)		296.419
Adjusted Capital Charge	(Average X 125%)		370.524
Risk-weighted Amount	(Adjusted Capital Chg X 10)		3,705.243

B. QUALITATIVE INFORMATION

I. Strategies & Processes

Operational Risk - Defined as the risk of loss arising from direct or indirect loss from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Direct Loss is a result primarily from an operational failure while an Indirect Loss is the consequential impact followed by an operational risk event such as the extra overtime cost for dealing with that event.

Following are the strategies and processes in managing operational risks.

- **Review and Document Policies and Procedures**
  In reviewing and documenting policies and procedures, each business and operating unit shall ensure that they have a clear picture and ultimately ensure documentation of the following:

- **Processes** – Include all processes that are being done to ensure complete delivery of the transaction. This covers both client interface processes and internal control

- **People** – Identify everyone involved in the process, their duties and responsibilities and required competencies.

- **Reports** – That would be needed to assess risk management effectiveness.

- **Methodologies** – Details the tools and activities that would support decision making for critical areas of the process.

- **Systems and Data** – Cite the system and data requirement for the business unit to efficiently manage reports and methodologies employed.

All Business and Operating Units shall ensure that actual practices are consistent with documented policies and procedures (P and P).

- **Monitor and Formulate Action Plan**
  - ✓ Risk and Control Self-Assessment, (RCSA)
    - Shall be used to document operational risks by business and functional units. These documents shall identify the material operational risks and the control mechanisms used to manage those risks.
    - Include a description of the controls used to manage the identified risks together with an assessment of the effectiveness of those controls.
    - Accepted risks, comprising risks where CTBC Bank, Phils. has chosen not to control or limit the risk, and risks where there are no controls available to control or limit the risk, shall be identified on the risk profile.
    - Risks shall be ranked on an inherent risk basis with assessments made of likelihood and impact should the risk event occur. Assessment of the likelihood of a risk event occurring shall be based on an analysis of the effectiveness of the control (if existing) and this shall be articulated in the risk profile.

Improve Risk Management Process

After thorough study and analysis of data gathering indicated in the RCSA, the Bank shall endeavor to improve existing processes, people, reports, methodologies and system.

This is to ensure that the following shall be actively encouraged by Enterprise Wide Risk Management Department.

- Benchmarking performance to identify best practices.
- Cross-Functional interactive communication and knowledge sharing.
- Integrating the Bank's risk language, philosophy, policies and practices as part of the employees training programs.

II. Structure & Organization

Operational Risk Management Framework

Roles and Responsibilities

CTBC Bank, Phils. has established a framework of roles and responsibilities consistent with the generally recognized principles of sound Operational Risk Management practice. Ultimate responsibility for the appropriate management of Operational Risk rests with the Board of CTBC Bank, Phils. The Board has further delegated the responsibility to the CTBC management.

Specific Operational Risk Management functional responsibilities are defined as follows:

ROLE	RESPONSIBILITIES
Board of Directors	The Board provides governance, guidance and oversight to Senior Management and sets and approves the risk management policies, strategies and framework. The Board shall: • Review and approve the Operational Risk Management Policy and Framework. • Ensure compliance with all relevant regulatory requirements and periodically report CTBC's operational risk profile and issues. • Ensure that appropriate systems and controls are in place within CTBC in order to identify, assess, manage and monitor the business's Operational Risk exposures. • Ensure that the Operational Risk Management framework is subject to independent review by at least through the Internal Audit function. • Decide and set the operating risk appetite of the business and communicate this throughout the organization. Establish the Risk Management Committee (RMC) which shall be responsible for the development and oversight of the Bank's Risk Management Program. It shall provide general direction and define the risk philosophy of the Bank. The core responsibilities of the Risk Management Committee are as follows: 1. Identify and evaluate risk exposures

	2. Develop risk management strategies. 3. Implement the risk management plan. 4. Review and revise the plan as needed. 5. Review and update the Risk Management Charter periodically.
Operations Committee	The Operations Committee is a management-level committee duly constituted and authorized by the Bank to fully carry out its functions and responsibilities. The Committee's mission is to monitor and discuss operational risk issues of the Bank. The principal purpose of the Committee is to deal with the risk issues identified by the Business Units and control Functions of the Bank. Functions and Responsibilities of the Committee are as follows: - To support the Board of Directors and the Risk Management Committee (RMC) in their oversight and to assist the President/ Chief Executive Officer (CEO) in his effective management and supervision of the Operations risks taken by the Bank within the established Risk Tolerance and Risk Profile of the Bank. - To deliberate on new and outstanding high-risk audit findings of the Bank on operations risk and recommend actions to be approved by the President/CEO. - To deliberate on operational risk issues identified by the various Business Units and support Functions through a self-assessment system and recommend actions to be approved by the CEO. - To provide inputs and advice to the President/CEO in the conduct of Operations Committee meetings and its deliberations. - To periodically review, revise and approve all guidelines, standards and procedures related to its area of responsibility.
Senior Management Team	The Senior Management Team oversees the Operational Risk Management Framework and has day-to-day responsibility and accountability for the management of operational risks in their functions. Specific responsibilities include: o The development of respective policies and procedures and establishing controls to mitigate identified risks. o The regular monitoring of risks against limits. o Ensuring processes are in place for dealing with risks that have exceeded acceptable parameters. o Responsible for identifying, managing operational risk and reporting operational risk events and losses within their respective operational/functional business or operating units. o Reporting Operational Risk incidents and the status of Operational Risk Events to the Risk Management Committee and the Board, in accordance with the operational risk reporting limits framework. o Supporting and maintaining the Key Risk Indicator / Risk and Control Self-Assessment

	framework within their functional/operational unit to continually identify, assess, manage and control operational risks as they emerge and change.
Enterprise Wide Risk Management Officer	The Enterprise Wide Risk Management Officer is responsible for establishing, overseeing and supporting CTBC's Operational Risk Management ("ORM") framework, achieved through: o Development of policies and procedures. o Providing guidance, support and advice in the identification, management and control of operational risks. o Providing training of ORM practices and processes, and support the building of an appropriate risk management culture. o Ensure that CTBC meets BSP Basel II and Parent Bank's ORM requirements (Please refer to Appendices E & F) and the timely roll-out of Operational risk initiatives. o Objective and critical monitoring and reporting of Operational Risk activities, risk profiles and risk mitigation.
Unit Compliance and Risk Officers(UCRO) - Operational Risk Coordinators	Officers from functional/operational units assigned as UCRO-Operational Risk Coordinators are responsible for working collaboratively with the Enterprise Wide Risk Management Officer to ensure operational risks are appropriately and expeditiously identified, assessed, managed and controlled.
Internal Audit Function	The Internal Audit Department is an essential part of the risk management system that takes the lead in the ongoing monitoring of the internal control process and providing an independent assessment of system integrity. The Internal Audit functions have the responsibility to: • Review outputs from risk assessments and assess if business units are appropriately following up and addressing those risks identified during the risk assessment process. • Review and assess compliance with local laws and regulations and the internal policies and procedures of CTBC. • Provide assurance to the Board that management is appropriately managing and controlling all material risks in the business. • Conduct independent examinations and evaluations of risk management processes (policies, procedures, systems) to assess whether operational risks are within acceptable tolerance limits. This includes reviews to assess the appropriateness of the operational risk identification, measurement, response, and monitoring methodology. • The compliance and performance of Risk Management and Risk Control and Compliance Function • Review and assess compliance of Risk-Taking personnel with credit and operational policies and procedures periodically;

	• Scan for internal control deficiencies or ineffectively controlled risks and report these in a timely manner to the Audit Committee. • Monitor and immediately report to the Audit Committee for identified deficiencies that remain uncorrected; • Review and assess that existing policies and procedures remain relevant and adequate for the Bank's activities.
Other Operational Risk related functions	Specialist departments including Legal, Compliance, Human Resources, IT and Finance functions have a dual responsibility to manage both the operational risks within their own functions as well as provide support to other departments for operational risk management e.g. HR should actively participate in the management of risks relating to "people".
All Officers and Staff	All personnel of the Bank are responsible for observing Philippine laws and regulations, CTBC's policies, procedures, delegations and managing risks in line with defined levels.

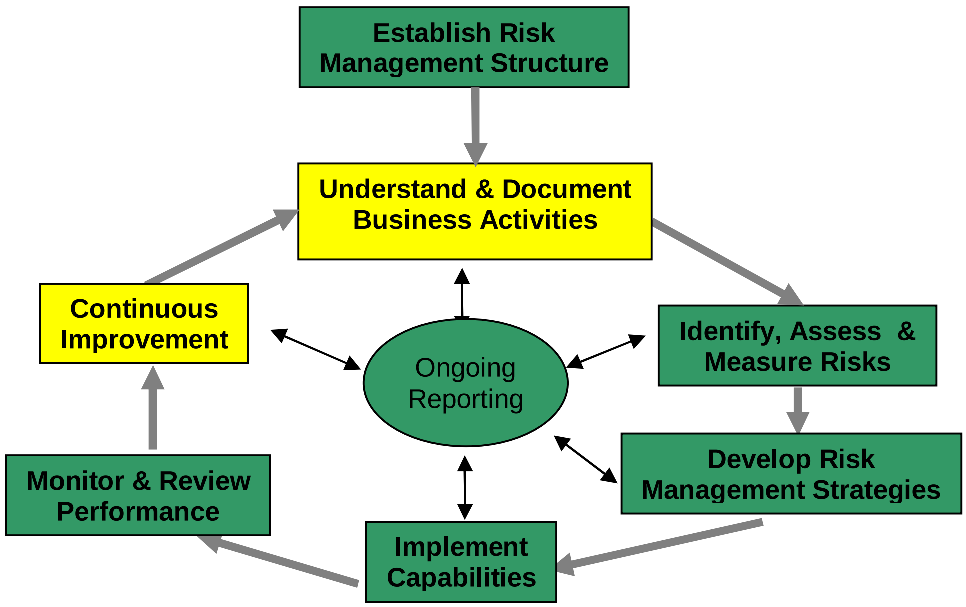
III. Scope & Nature of Risk Reporting and Measurement Systems

Operational Risk Management Process

To ensure that all operational risk of the different Business and Operating Unit are reported and properly managed, the Bank's promotes the Operational Risk Process Cycle to have a risk process assessment on a periodic basis [1].

[1] If there will be changes in the organizational structure that would affect the existing controls of the unit (e.g. resignation, change of assignment/job function etc) and (2) In the event of any change in management direction that affects the daily operation of the unit

The Bank's Operational Risk Process is illustrated as follows:



The Bank requires all operating units of the Bank on a monthly basis to formulate and use key risk indicator that would represent standard measures in indicating effectiveness of operational risk management activities.

Example of typical risk indicators are:

- Outstanding and Prior Audit Findings not sufficiency addressed
- Frauds and Losses/Attempts
- Control weaknesses
- Reconciling Item
- IT Failure
- People Problem/Turnover
- Others.

Historical losses / risk events are collected to help assess current risk measure being adopted.

Monitoring Tools

1. **Key Risk Indicators (KRIs)**

   Key Risk Indicators (KRI's) are an important detection (and sometimes preventative) control over risk. Key Risk Indicators comprise three main types: proactive, prospective (leading) and reactive (lagging).

2. **Incident Management**
   The objectives of incident management processes are the following:
   - Assess the impact on appetite / tolerance
   - Identify the root cause of the loss
   - Identify process improvement opportunities
   - Reduce losses
   - Business learning

Stress Testing

The Bank utilizes the scenario based survey which is sometimes motivated by recent events which seek to assess the resilience of the Bank and the financial system to an exceptional but plausible scenario.

IV. Strategies and Processes for Mitigating Risks

Business unit risk profiles will be reviewed on at least an annual basis across the entire business. The basis of the review will include reference to:

- Changes in business operations – including new products
- Emerging or changing risks
- Compliance monitoring activities
- Risk Event reporting
- Loss data
- Audit reviews – internal and external

SMT members are required to provide an attestation to the Operational Risk Committee following this review. This attestation will verify that the risk profile for their business unit has been properly reviewed and updated accordingly.

Business risk profiles may be reviewed on a more frequent basis for a particular business unit if deemed appropriate due to changes or new developments.

ANNEX 7 : OTHER PILLAR II RISKS

A. QUANTITATIVE INFORMATION, as of December 31, 2013

Under the Pillar II, internal capital adequacy assessment of the Bank considers other risks inherent to the Bank like the interest rate risk in the banking books, compliance risk, reputational risk and liquidity risks. The same is disclosed in the Internal Capital Adequacy Assessment Process Document (ICAAP) of the of the Bank which is updated yearly.

Results of the quantification show the following risk weighted assets (RWA) :

Risk Type	RWA (In Millions PHP)	REMARKS
Liquidity	0	No capital charge is required on account of sound liquidity management and more than sufficient contingency funding.
IRRBB	502	Based on Economic Value of Equity (EVE) Approach
Compliance	434	Based on Compliance Risk Self-Assessment Survey
Reputational	108	Based on Reputation Risk Self-Assessment Survey
TOTAL RWA	**1,043**	

ANNEX 8 : LIQUIDITY RISK

I. Strategies & Processes

The Bank's risk appetite and tolerance are set by its set of liquidity risk limits. Liquidity risk limit is a tool for authorizing and controlling specific forms of liquidity risk taken by the Bank, by which the Bank ensures its liquidity risk exposure is consistent with the risk appetite of the Bank.

The most often seen limits are:

1. Short-term borrowing: This limitation prevents overdependence on low-cost but unstable funds from other financial institutions. Such limit is established by taking into account external liquidity conditions, our own asset and liability structure, credit facilities granted to us and peer banks' liquidity status.
2. Maximum cumulated outflow (MCO): Limits are set on short-term cash flow gaps in order to prevent overdependence on short-term funds to finance long-term assets, which will heighten liquidity risk. The establishment of MCO limits should factor in gap structure, deposit stability, deposit rollover ratio and the Bank's borrowing flexibility.

When the annual business planning and budgeting kicks off, the setting of risk appetite and tolerance is processed synchronously, Liquidity and Balance Sheet Management Unit will make the limit proposals in accordance with the current year's limit framework. MRMD will make limit recommendations taking into account risk tolerance, exposure, risk-reward tradeoffs and their proposals, if any, and then consult with the Parent Bank. These limits are updated annually and are subject to the review and approval of the Board of Directors or other delegated authorities.

II. Structure & Organization

Market Risk Management Department (MRMD) is responsible in managing liquidity risk. MRMD is independent of the risk-taking unit and in charge of formulating Asset and Liability Management Policy and establishing implementation guidelines as needed; developing the methods of identification, measurement, monitoring and reporting of risk and pushing for the implementation; and studying asset and liability management related issues.

III. Scope & Nature of Risk Reporting and Measurement Systems

There are two types of liquidity risk: funding liquidity risk and market liquidity risk. Funding liquidity risk refers to the risk of inability to obtain funds at a reasonable cost within a reasonable timeframe to meet the financial obligations. Market liquidity risk arises when a specific asset cannot be sold for cash at a reasonable price within a reasonable timeframe. As it may have impact on funding liquidity risk, market liquidity risk must be factored in when assessing funding liquidity risk.

There is cost associated with the level of liquidity. Liquidity risk management aims to satisfy funding needs and maximize profits by allocating assets and liabilities in the most cost effective way within the approved risk tolerance.

All on- and off-balance sheet transactions are subject to liquidity risk management as they all affect the Bank's liquidity.

In risk measurement, Liquidity risk is often quantified by a combination of various indicators. The most common indicators include:

- **Loan to deposit ratio**: This ratio indicates fund shortage or surplus.
- **Maturity gap analysis**: Analyzing maturity mismatch will help understand cash flow gap by time bucket. Liquidity risk could be measured by this analysis together with an assessment of the Bank's funding capacity.
- **Liquidity ratio and composition**: This ratio, together with the composition and tenor of liquid assets, may be used to assess the Bank's ability to convert such assets into cash.

MRMD is responsible to continuously develop appropriate liquidity-related indicators and monitoring frequencies based on the characteristics and complexity of assets and liabilities. The overall liquidity risk may not be reflected by single risk indicator. MRMD takes all relevant indicators into account when assessing liquidity risk. The Bank shall send the liquidity indicators to Parent Bank for review.

IV. Strategies and Processes for Mitigating Risks

The liquidity risk limits are monitored on monthly basis. MRMD is responsible for independently monitoring the business units' compliance with the established limit framework, as well as distributing monthly liquidity gap report and advisory summary to ALCO, RMC and BOD for their review periodically.

Below is the Bank's Maximum Cumulative Gap in December 2013:

in USD Millions

	CCY	Soft limit	Board Limit	ALCO Limit	Check (Within Limit)	Dec-13
Liquidity	LCY	7D MCO		(45)	Y	98
		1M MCO		(75)	Y	70
		2M MCO		(55)	Y	74
	FCY	7D MCO		(95)	Y	38
		1M MCO		(95)	Y	(37)
		2M MCO		(105)	Y	(35)
	Consolidated	7D MCO	(80)		Y	137
		1M MCO	(80)		Y	34
		2M MCO	(90)		Y	39

When the liquidity exposure exceeds the established limits, after the excess is confirmed, MRMD shall notify the unit allocated with the limit and the designated limit authority of such limit. Upon receipt of the notification, the unit that is allocated with the limit shall no longer transact to increase exposure. This limit breaching unit must be joined by the MRMD to analyze the causes and impacts of the excess, and draft an action plan addressing the issues. MRMD will submit the analysis and proposal to the limit authority for approval. The business unit involved and Liquidity and Balance Sheet Management Unit will adjust positions in accordance with approved decisions. The Parent Bank Risk Management Unit will be informed of the limit excess and excess-related information simultaneously.

The Bank applies a liquidity risk management strategy of maintaining sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions. In addition to its core deposit base, the Bank maintains a portfolio of marketable assets that can be readily liquidated in the event of an unforeseen interruption of cash flows. Additional funding may be secured from the inter-bank market by tapping the Bank's credit facilities. Further, the Bank maintains with the BSP reserves of its non-FCDU deposits.

Regular stress-testing is performed. This includes the identification of the Bank's assets which can be readily liquidated in case of massive withdrawals. A withdrawal percentage of deposits are being assumed for this purpose.

ANNEX 9 : INTEREST RATE RISK IN THE BANKING BOOK

I. Strategies & Processes

For controlling interest rate risk, the Bank sets a limit on the interest rate sensitivity of the banking book. The limit, called delta NII (Net Interest Income) is a control on magnitude of the interest rate risk exposure taken by the Bank. A limit is also set on the sensitivity of the Economic Value of Equity of the Bank to changes in interest rate.

The Liquidity and Balance Sheet Management Unit will make the limit proposals. MRMD will make limit recommendations taking into account risk tolerance, exposure, risk-reward tradeoffs and their proposals, if any, and then consult with the Parent Bank. These limits are updated annually and are subject to the review and approval of the Board of Directors or other delegated authorities.

II. Structure & Organization

Market Risk Management Department (MRMD) is responsible in managing interest rate risk in the banking book. MRMD is independent of the risk-taking unit and in charge of formulating Asset and Liability Management Policy and establishing implementation guidelines as needed; developing the methods of identification, measurement, monitoring and reporting of risk and pushing for the implementation; and studying asset and liability management related issues.

III. Scope & Nature of Risk Reporting and Measurement Systems

Interest rate risk refers to the impact on the Bank's profits or on economic value of non-trading purpose[2] assets, liabilities and derivatives when interest rates change.

Interest rate risk management aims to keep interest rate exposures within the Bank's risk appetite through the establishment of authorities, responsibilities and management procedures. It provides guide to adjusting asset and liability structures in anticipation of interest rate changes so that the Bank's profit can be maximized.

Interest rate risk stems from different sensitivity of assets and liabilities to interest rate change. The sensitivity of all on- and off-balance sheet items to interest rate movements must be duly examined when assessing interest rate risk.

[2] Non-trading purpose refers to a position not built for the purpose of earning capital gains

Interest rate risk may be measured by the following tools:

1. **Repricing Gap Report** :

   This report measures the repricing gap between asset and liability by various time buckets in order to understand interest rate mismatch.

2. **Risk Sensitivity**:

   This measures the impact of 1 basis point change in interest rate on net interest income (NII) and that on economic value of equity (EVE). The analysis of such impact on NII (1bp∆NII) focuses on changes in interest income and expense within a year, hence, a short-term perspective. The analysis of such impact on EVE (1bp∆EVE) is of a long-term perspective as it focuses on changes of economic value which will become net interest income received every year later on.

3. **Stress Test**:

   This evaluates the appropriateness of exposure. Stress test methodologies and results shall be submitted to ALCO to comprehend the Bank's rate risk profile.

   The above risk measurement may generate different results while adopting different methodologies and assumptions. MRMD is responsible to develop the measurement, monitoring frequency, and parameters by taking into account their respective characteristics/ complexity of assets and liabilities and methodologies used. Any of the aforementioned items need to send to Parent Bank for review.

   The following table provided additional information on the impact on economic value of equity under assumed upward or downward rate shocks scenarios as of Dec 27 2013.

UPWARD

Repricing Risk

PHP

Rate Change in bps	ΔEVE in USD thousands
400	(2,896)
200	(1,548)
Base	(7)

FCY

Rate Change in bps	ΔEVE in USD thousands
400	(1,241)
200	(774)
Base	(5)

DOWNWARD

Repricing Risk

PHP

Rate Change in bps	ΔEVE in USD thousands
400	4,174
200	1,847
Base	(7)

FCY

Rate Change in bps	ΔEVE in USD thousands
400	2,972
200	1,195
Base	(5)

IV. Strategies and Processes for Mitigating Risks

The interest rate risk limit shall be reviewed annually in accordance to the annual business strategy and budgeting planning to ensure the effectiveness.

The interest rate risk limits are monitored on monthly or daily basis (AFS and HTM securities). MRMD is responsible for independently monitoring the business units' compliance with the established limit framework, as well as distributing monthly repricing gap report and advisory summary submit to ALCO, RMC and BOD for review periodically.

In the repricing gap report, non-trading purpose interest-sensitive assets, liabilities and derivatives are slotted into tenor buckets based on a set of repricing gap assumptions. For example, personal loans are placed by half of remaining life to maturity while demand deposits are slotted in 6 month. The repricing gap assumptions correspond to the accounts' repricing schedule or effective maturities and are subject to the endorsement of the CRO and Parent Bank review.

From the Repricing Gap schedule, Delta NII can be derived by calculating the 1 basis point change of interest rate to the repricing gap using simple interest formula of notional x 0.01%(1bp parallel shift of interest rate) x time. Calculation should be made per time bucket and should cover the 1 year time period only. Sum up the calculated interest within 1Y tenor bucket then convert the number to USD equivalent. Check if it does not breach the Delta NII limit.

Meanwhile, EVE can be derived by calculating first the present value of the repricing gap per time bucket using the current yield curve. Then calculate again the present value of the repricing gap per time bucket using the current yield curve plus 1 basis point increase. Sum up the present value difference per time bucket then convert the number to USD equivalent. Check if it does not breach the EVE limit.

The tables show the sensitivity of the Bank's one-year earnings and economic value of equity to possible changes in interest rates.

INTEREST RATE RISK IN THE BANKING BOOK

Sensitivity of the Bank's one-year earnings and Economic Value of Equity

in PHP

2013

Currency	Increase in bps	Sensitivity of net interest	Sensitivity of Equity								
			1M	3M	6M	1Y	2Y	5Y	7Y	10Y Up	Total
(In Thousand											
	15	2,297	(577)	59	4,306	(2,345)	(5,737)	(173)	-	-	(4,466)
PHP	20	3,063	(769)	79	5,739	(3,125)	(7,644)	(230)	-	-	(5,950)
(in 000s)	25	3,828	(961)	98	7,172	(3,905)	(9,548)	(287)	-	-	(7,430)
	15	722	(92)	(271)	1,569	172	580	199	-	(5,308)	(3,151)
USD	20	962	(123)	(361)	2,091	230	773	265	-	(7,053)	(4,179)
(in 000s)	25	1,203	(153)	(451)	2,612	287	965	331	-	(8,786)	(5,196)

2013

Currency	Decrease in bps	Sensitivity of net interest	Sensitivity of Equity								
			1M	3M	6M	1Y	2Y	5Y	7Y	10Y Up	Total
(In Thousand											
	-15	(2,297)	578	(59)	(4,316)	2,352	5,762	174	-	-	4,491
PHP	-20	(3,063)	771	(79)	(5,757)	3,137	7,689	232	-	-	5,993
(in 000s)	-25	(3,828)	964	(98)	(7,198)	3,923	9,618	291	-	-	7,498
	-15	(722)	92	271	(1,572)	(173)	(583)	(201)	-	5,420	3,256
USD	-20	(962)	123	362	(2,097)	(231)	(777)	(268)	-	7,252	4,364
(in 000s)	-25	(1,203)	154	453	(2,622)	(288)	(972)	(335)	-	9,096	5,485

When the interest rate exposure exceeds the established limits, after the excess is confirmed, MRMD shall notify the unit allocated with the limit and the designated limit authority of such limit. Upon receipt of the notification, the unit that is allocated with the limit shall no longer transact to increase exposure. This limit breaching unit must be joined by the MRMD to analyze the causes and impacts of the excess, and draft an action plan addressing the issues. MRMD will submit the analysis and proposal to the limit authority for approval. The business unit involved and Liquidity and Balance Sheet Management Unit will adjust positions in accordance with approved decisions. The Parent Bank Risk Management Unit will be informed for the limit excess and excess-related information simultaneously.

Regular stress-testing is performed to approximate the effect of extreme interest rate fluctuation on the economic value of equity. Stress-testing can be done in the form of pre-defined parallel shifts in interest rate curve or on the basis of ad hoc projected interest rate scenario.

ANNEX 10 : COMPLIANCE AND BUSINESS RISK

Compliance Risk is the risk of legal or regulatory sanctions, financial loss or loss to reputation a bank may suffer as a result of failure to comply with all applicable laws, regulations and codes of conduct and standards of good practice. As for Business Risk and as provided in BSP Circular 747 issued in 2012, refers to conditions which may be detrimental to a Bank's business model and its ability to generate returns from operations, which in turn erodes the franchise value.

The Bank's Compliance Department is independent in its function that identifies, assesses, advises, monitors and reports on the Bank's Compliance and Business Risks. It creates a dynamic compliance system and fosters a culture of compliance within the institution. The Bank's Compliance Department oversees the Bank's adherence to the requirements of the regulatory agencies to ensure that the Bank conducts safe and sound banking practices.

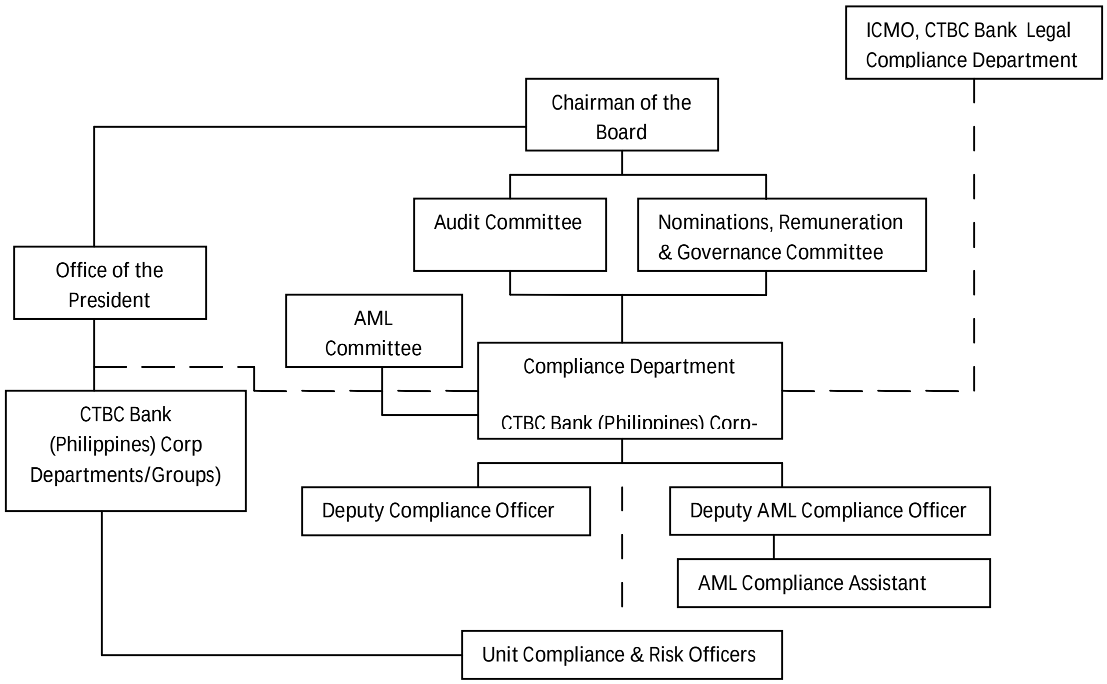
I. Strategies & Processes

In ensuring oversight and monitoring of Compliance and Business Risks, the Compliance Department's oversight function in the mitigation of both risk areas is identifying the role and responsibilities of Compliance with the line, operating and business units of the Bank and its resolution in cases of possible breaches. It aims to cover all possible avenues in the business that requires oversight in the Compliance function.

II. Structure & Organization

Compliance Department is composed of three (3) compliance officers, headed by Chief Compliance Officer, concurrently as Senior AML Officer, whose functions are embodied in the Bank's Compliance Charter and Compliance Program. They are assisted by Unit Compliance & Risk Officers (UCRO) who is designated by their respective group heads that independently functions as compliance officers of their respective groups and reports to the Compliance Department.

Below is the Compliance Department Organizational Chart :



III. Scope & Nature of Risk Reporting and Measurement Systems

Compliance Department is an independent unit, reporting directly to the Board of Directors and administratively is under the Office of the President. Departmental and Independent Compliance Testing is established to have a risk based, quantitative and qualitative review of the regulatory requirements.

IV. Strategies and Processes for Mitigating Risks

The Compliance Program of the Bank provides for the clear and documented guideline that defined the Compliance structure and its functions, roles and responsibilities. In ensuring that these risks are monitored and mitigated, a comprehensive compliance system has been established to ensure that integrity and adherence in the regulatory requirements as well as in the accuracy and timeliness of reporting requirements of the Bank. The Bank's Compliance has defined constructive working relationship between the Bank and the regulators by having an open and clear communication line as well as appropriate monitoring and tracking until resolution of possible noted breaches to ensure of safe and sound banking operations is upheld within the institution.

ANNEX 11 : REPUTATION RISK

I. Strategies & Processes

Reputational Risk is the risk or its likelihood that negative information, public opinion or publicity, regarding an institution and its business practices will lead to loss or reduction of revenue and /or decline in its customer base, and/or costly litigation

At CTBC Bank (Philippines) Corp. (CTBC), reputational risk is among the identified risks, which the Bank may be exposed to. Possible public embarrassment, erosion of trust from the customers, adverse impact on the revenue, are among the potent results of this risk, largely impacting on the name of the organization and the confidence of the customers to continue doing business with the Bank.

Based on the results of the internal Risk Self Assessment conducted at CTBC, reputational risk is among the "soft" risks, ranking lower in the list of risk categories. Historically, CTBC, now operating on its 18th year as of this writing, has not had any reputational issues. However, CTBC's Bank Management and its personnel continue to be vigilant of any untoward possibility brought about by reputational risk, through a well-established preventive posture.

Reputational Risk Identification

Critical to the effective reputation risk identification process was the active involvement of designated officers representing the various business, operational and other support department/groups of the Bank. Major classification of the reputational risk assessment process includes the following:

Reputational Risk Classification	*Risk Description*
Strategic Planning and Business Development	Reputational risk issues related to setting and fulfilling the goals and targets, business performance and profitability, market standing, and business outlook.
Systems, Controls and Infrastructure	Reputational risk issues related to information, data, security management, operations and processing, supporting systems and infrastructure, risk management process and controls, financial and budgetary controls, business continuity, and crisis management.

Human Resource	Reputational risk issues related to recruitment, retention, and succession planning, remuneration and incentive schemes, competence and training, motivation, conduct and integrity, morale, staffing and workload, health and safety, and others.
Operating Environment	Reputational risk issues that arose from market, political, social and technological developments.
Stakeholder Relations and Communications	Reputational risk issues related to stakeholder loyalty and confidence, satisfaction of their needs and expectations, and effective communications with them.
Legal and Regulatory Compliance	Reputational risk issues related to compliance with relevant laws, regulations and codes of conduct.
Corporate Governance	Reputational risk issues related to governance infrastucture and practices, and compliance with internal policies, codes of conduct, guidelines and procedures.
Contagion Risk or Rumors	Reputational risk issues related to reputation events affecting the Parent Bank, non-bank holding company, or other members of the group (e.g. sister companies, subsidiaries and affiliates).

Specific areas were assigned to the officer designates who were involved in the reputational risk self assessment survey. These officers were designated by the Group Heads to represent the group and were instrumental in determining the key sources of reputation risk events and losses in their respective assigned area. Part of the exercise was to assess the likelihood and impact of each reputational risk event, the maximum loss to be incurred if it happens, the necessary controls to be implemented to manage the reputational risk exposure, both preventive and reactive mitigating factors to the risk events. More importantly, the controls put in place were also checked as to its effectiveness, including the close monitoring of the execution of the controls by the identified risk owners, to preclude same risk event to happen again in the organization at a future time.

Stress Testing

In the calculation of reputational risk under the stressed scenario, the Bank utilizes the Reputational Risk Self Assessment (RRSA) Survey. The scenarios provided by the Business and Functional Units are already stressed based on their perceived risks and existing controls.

II. Structure & Organization

CTBC has established a framework of roles and responsibilities consistent with the generally recognized principles of sound Reputational Risk Management practice. Ultimate responsibility for the appropriate management of Reputational Risk rests with the Board of CTBC.

Specific Reputational Risk Management functional responsibilities are defined as follows:

ROLE	RESPONSIBILITIES
Board of Directors (Board)	The Board provides governance, guidance and oversight to Senior Management and sets and approves the risk management policies, strategies and framework. The Board shall: • Review and approve the Reputational Risk Management Policy and Framework. • Ensure compliance with all relevant regulatory requirements and periodically evaluate CTBC's reputational risk profile and issues. • Ensure that appropriate systems and controls are in place within CTBC in order to identify, assess, manage and monitor the business's Reputational Risk exposures. • Ensure that the Reputational Risk Management framework is subject to independent review by at least through the Internal Audit function.
Risk Management Committee (RMC)	The Board-established Risk Management Committee (RMC) shall be responsible for the development and oversight of the Bank's Risk Management Program. It shall provide general direction and define the risk philosophy of the Bank. The core responsibilities of the Risk Management Committee are as follows: • Identify and evaluate risk exposures • Develop risk management strategies. • Implement the risk management plan. • Review and revise the plan as needed. • Review and update the Risk Management Charter periodically.
Quick Assessment Team (QAT)	The QAT is a Reputational Risk Team chaired by the CEO, which is established to manage reputational risk events. The CEO has the option of mobilizing the QAT as he deems necessary. Responsibilities of the QAT are the following: • The QAT is empowered to deploy Spot Evaluators to further assess the extent of the reputation event • Based on feedback of the assigned Spot Evaluators, the QAT will make a report on the magnitude and impact of the event and give its recommendation/s to the CEO • Constant monitoring and feedback will be done by the Spot Evaluators and the

	QAT until the CEO decides that the treat is over.
President/Chief Executive Officer (CEO)	The President/Chief Executive Officer ("CEO") can help promote effective external communications, especially in the handling of reputation events, and ensure that the reputation perspective is adequately considered in the Bank's risk management processes. The CEO shall be the spokesperson in the context of public relations with close coordination with EWRM Personnel and Marketing Communications and Services Department (MCSD) and will be responsible for keeping the Parent Bank's Public Relations Unit informed from time to time. Should the CEO not be available, CTBC will follow the approved spokespersons list and the External Communication Guidelines from Parent Bank.
Chief Risk Officer (CRO)	The Chief Risk Officer holds the oversight function of the EWRMD. The CRO shall manage EWRMD and ensure that responsibilities related to the management of Reputational Risk are met. In the absence of the EWRMD Head, the CRO shall perform the functions assigned to the EWRMD Head in this policy.
Senior Management Team	The Senior Management Team oversees the Reputational Risk Management Framework and has day-to-day responsibility and accountability for the management of reputational risks in their functions. Specific responsibilities include: • The development of respective policies and procedures and establishing controls to mitigate identified risks. • The regular monitoring of risks against limits. • Ensuring processes are in place for dealing with risks that have exceeded acceptable parameters. • Responsible for identifying, managing and reporting reputational risk events and losses within their respective units. • Reporting Reputational Risk incidents and the status of Reputational Risk Events to the Risk Management Committee and the Board, in accordance with the reputational risk reporting limits framework. • Supporting and maintaining the Risk and Control Self-Assessment framework within their unit to continually identify, assess, manage and control reputational risks as they emerge and change. Senior management plays a crucial role in setting the right tone from the top so that appropriate emphasis can be given to managing material risks, including reputation risk and implements the bank's risk management policies and ensures that relevant control systems work as intended.
Department	**Other levels of Management (including Department Heads)** The duties of other levels of Management are: • Promoting staff awareness of reputational risk in their respective business, operation or function (in particular those that interact directly with major stakeholder groups); • Identifying key risks (for example, strategic and operational risks) that can

Heads	significantly affect the Bank's reputation or business and bring them to senior management's attention; • Being alert to early warning indicators of potential problems or threats to reputation; and • Ensuring that reputational risk is properly managed, with no major risks affecting reputation being inadvertently excluded (for dedicated risk management personnel).
Marketing Communication and Services Department (MCSD) Head	The Marketing Communications and Services Department Head is responsible for overseeing and supporting CTBC's Reputational Risk Management ("RRM") framework, achieved through: • Providing guidance, support and advice in the identification, management and control of reputational risks. • Support the building of an appropriate risk management culture. • Objective and critical monitoring and reporting of reputational risk activities, risk profiles and risk mitigation. • Works with the EWRMD Head in formulating a response plan based on the reputational risk assessment results; • Reports to the CEO possible and actual reputational risk events for prompt action/handling; • Handles all communication matters, including media relations and public announcements; • Monitors local media reports for possible reputational risk events and is responsible for the compilation and filing of media releases for all reputation events.
Enterprise Wide Risk Management (EWRMD) Head	Enterprise Wide Risk Management Department is designated by the CEO to be responsible for coordinating the design, implementation and monitoring of the reputational risk management process. The EWRM Personnel shall at all times act in consultation with the CEO and the Reputational Risk Management Team and shall be assigned, among other things, the following duties: • Development of policies and procedures; • Promoting and implementing the culture of reputational risk management; • Planning the overall structure and method of reputational risk management; • Ensure that CTBC meets BSP and Parent Bank's RRM requirements and the timely roll-out of reputational risk initiatives; • Stipulating an identification and assessment method of reputational risk; • Standardizing the warning indicators of reputational risk early warning systems; • Providing training of RRM practices and processes; • Managing a reputational event; and • Monitoring and controlling the change of reputational risk

Reputational Risk Coordinators	Officers from business /operational units assigned as Reputational Risk Coordinators are responsible for working collaboratively with the Enterprise Wide Risk Management Head and Marketing Communications and Services Department Head to ensure reputational risks are appropriately and expeditiously identified, assessed, managed and controlled.
Internal Audit Function	The Internal Audit Department is an essential part of the risk management system that takes the lead in the ongoing monitoring of the internal control process and providing an independent assessment of system integrity. The Internal Audit functions have the responsibility to: • Review outputs from risk assessments and assess if business units are appropriately following up and addressing those risks identified during the risk assessment process. • Review and assess compliance with local laws and regulations and the internal policies and procedures of CTBC. • Provide assurance to the Board that management is appropriately managing and controlling all material risks in the business. • Conduct independent examinations and evaluations of risk management processes (policies, procedures, systems) to assess whether reputational risks are within acceptable tolerance limits. This includes reviews to assess the appropriateness of the reputational risk identification, measurement, response, and monitoring methodology. • Scan for internal control deficiencies or ineffectively controlled risks and report these in a timely manner to the Audit Committee. • Monitor and immediately report to the Audit Committee for identified deficiencies that remain uncorrected; • Review and assess that existing policies and procedures remain relevant and adequate for the Bank's activities.
Other Reputational Risk related functions	Specialist departments including Legal, Compliance, Human Resources, IT and Finance functions have a dual responsibility to manage both the reputational risks within their own functions as well as provide support to other departments for reputational risk management e.g. HR shall actively participate in the management of risks relating to "people".
All Officers and Staff	All personnel of the Bank are responsible for observing Philippine laws and regulations, CTBC's policies, procedures, delegations and managing risks in line with defined levels. All other staff can help to uphold CTBC's reputation through their behavior, remarks and actions which may influence stakeholders' perception of the Bank.

III. Scope & Nature of Risk Reporting and Measurement Systems

Monitoring and Reporting

In order to monitor and control reputational risk, early warning indicators of any changes to reputational risk shall be analyzed and evaluated for improvement, and reported to the CEO if necessary.

Early Warning Indicators

The EWRMD with the assistance of other functional and business units (i.e Treasury, Finance, BCM etc.) shall regularly monitor scenarios that may impact on reputational events through market environment reports, social and political trends, and asset development reports, among others. MCSD will likewise monitor local media reports for possible reputational events. Such obtained information shall be forwarded by business units and MCSD to the EWRMD to be reported to the CEO immediately.

Communications and Disclosures

With regard to the reputation events, personnel, financial or business related information, the Bank shall communicate regularly with the outsiders in a clear, honest, transparent and timely manner by way of a disclosure, announcement or press release/statement. This will help in preventing a communication vacuum and in alleviating or minimizing any damage to the Bank's reputation.

Reputational Risk Assessment and Quantification

Working towards an effective quantification process, the team made use of the template of the reputational risk self assessment survey as part of CTBC's risk assessment process. Plausible as well as stressed situations were worked on, in the identification of the reputational risks. After identifying the major reputational risk events per risk classification, the assigned officers proceeded to determining the maximum loss.

IV. Strategies and Processes for Mitigating Risks

For an effective reputational risk monitoring and management infrastructure, CTBC strongly supports the compilation of reputational events, including the corrective action from the various business, operational and support groups. This is an integral component of the management and monitoring of the implementation of the corrective action and continuous preventive position of the Bank. This forms part of the functional coverage of the EWRMD of the Bank.

Reputational Risk Reporting and Review of Strategies

To preclude damage to the Bank's name or to institute damage control for harm already done, action plans and strategies have to be continually revisited. This will ensure appropriateness of the action and strategies to the situation at hand.

ANNEX 12 : STRATEGIC RISK

Strategic risk is the risk that the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This definition gives importance to business planning, where business decisions and its implementation are derived from.

The strategic risk of the Bank is a function of the compatibility of its strategic goals, the quality of carrying out its implementation, building the infrastructure to meet such goals.

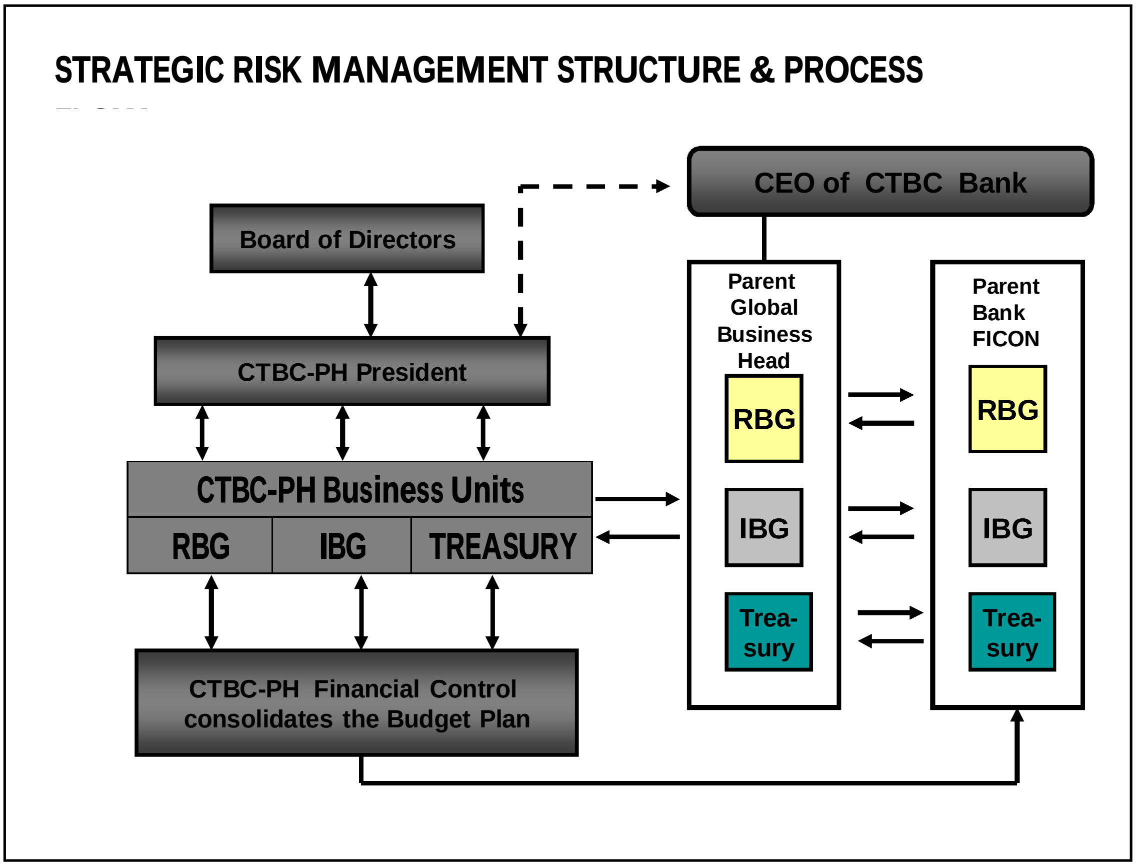
I. Strategies & Processes

Strategic risk management begins with the business planning. Business plans of the Bank establishes the strategies and priorities of the Bank in relation to its business. CTBC in preparing and drawing up its business plans considers prevailing macro-economic environment indicators, lists down external opportunities and threats for each business segment, re-evaluate its internal strengths and weaknesses, analyze the competition against other local and foreign banks and thereafter issues out the overall country strategy.

The overall country strategy is drilled down to the business segments, e.g. Institutional Banking Group (IBG), Treasury Group and the Retail Banking Group (RBG). Annually, these business segments draw up a business plan that is endorsed for approval by the global business heads

After the formulation of the business plan, the Bank will then subject the budget plan to stress testing by scenario planning. Scenario planning is an advance stress testing that derives alternative future plausible and extreme scenarios from the environmental analysis, business plans and risk self-assessment survey. Scenario planning allows the Bank to make strategic adjustments for the future, if needed. The Bank determines the scenarios that could adversely affect earnings and these are identified through scenario planning. These scenarios are linked to the changes in net income through variance analysis between the budget vs actual income statement and balance sheet volumes of interest earning assets and interest bearing liabilities.

II. Structure & Organization



The strategic risk management function is being handled by the Finance Group (Capital Management Unit and Financial Control Department/ FICON) of the Bank with support from the business units and other functional departments such as Human Resources (HR), and Information Technology (IT) departments.

FICON performs the regular financial reporting and discussions with relevant business units, the CEO and the Board of Directors. They handle the consolidation of the Bank's budget plan from the different business segments which are reported to both the local and global management.

Capital Management Unit subjects this budget plan to a stress testing and allocates a capital charge for strategic risk in the quantification of the budget capital adequacy ratio.

Business Units re-evaluates its internal strengths and weaknesses and analyze the competition in the industry and thereafter crafts out the business strategy and plans.

Business Units & the Finance Group have a matrix reporting to their global counterpart in the Parent Bank, where the global counterpart ensures business strategies and plans of the Bank is aligned with the business objectives of the Parent Bank subject to the approval of the CEO of CTBC Bank

III. Scope & Nature of Risk Reporting and Measurement Systems

As part of setting the strategic goals of the Bank, capital planning and funding needs will be a major part of the supporting processes in drawing up the strategic plans for the next five years. Management information system (MIS) reports such as product profitability reports, customer specific marketing plans whether for a new customer or expanding existing business relationships based on customer profitability analysis will be in place thru information extracted from data warehouse systems. Finally, independent reviews and audits will be conducted at least annually by internal or external audit to ensure effectiveness and integrity of the strategic risk management framework of the Bank.

With the close and meticulous supervision/monitoring of Parent Bank on the progress of meeting the Bank's strategic goals, append below is the frequency of meetings & reporting, the nature of the reports, the reviewing authority and the evaluation and feedback process that has been put into place :

Once in every three (3) months, country business meetings and performance review (thru videocon/telecon) – CEO, CRO, CFO, Local Business heads (IBG, Treasury & RBG Group Head) with all the Senior Management Executives at Parent Bank; Reports presented shows financial results, management overview customer metrics information, market sentiment, competitors' new products and peer banks information & analysis. In addition, actual month-to-date (MTD) results are compared to the preceding two months, actual year-to-date (YTD) results compared to the YTD results for the same period last year. Likewise, YTD actual are compared against full year budget. Year on year growth and Budget achievement are also presented.

Local Board meeting is held every two (2) months, and the latest financial results are shown. In the Board meeting, the action plans of each business group to meet the budget or catch up plans (in case actual results are falling behind budget) with the budget are likewise presented and scrutinized by the Board.

IV. Strategies and Processes for Mitigating Risks

When strategic adjustments need to be done, proper alignment of internal resources and processes will be made as well to ensure that all change issues and interdependencies between processes across departments be managed to accomplish these adjustments. Human Resources (HR) will provide the training and development programs, while management succession plan will be part of the supporting processes in the achievement of the Bank's strategic goals.

Likewise, Information Technology (IT) will develop new application systems to support new products and other new business initiatives. It will also have to enhance/customize existing systems to eliminate manual processing and thereby improve operational efficiency.

Success or failure of strategy depends on the Bank's resources, capability to implement the strategic goals and the ability to effectively monitor and control the progress of implementation. With the set-up of reporting structure, strategic issues are promptly identified and reported to the local CEO and then to the matrix reporting authority at Parent Bank.

ANNEX 13 : INCENTIVE STRUCTURE & REMUNERATION POLICIES

The Bank's remuneration philosophy is to ensure that its employees are properly compensated through a salary, benefits and incentives program that is competitive in the industry. It provides salaries that are fair and commensurate to the position and functional responsibility of its employees. Salaries and benefits are reviewed annually vis-à-vis other banks, so that retention of talents is strengthened. Merit increases and promotional increases are provided to performers, in line with the Bank's performance-oriented culture. Moreover, the Bank complies with all statutory requirements of the Labor Code of the Philippines (e.g. minimum wage, leaves, 13th month pay, government contributions, etc.), and in most cases, provides more that what the law requires.

Over and above compensation and benefits, the Bank offers profit sharing bonuses to deserving employees who perform at par with Management's expectations. Incentives are also given to those with sales and revenue-generating functions, to provide additional motivation for them to surpass their business goals.

ANNEX 14 : 2013 AUDIT COMMITTEE ACCOMPLISHMENT REPORT

1. Conducted six committee meetings in 2013 and covered the periodic Internal Audit, Compliance and external audit reports as follows:
   - March 5, 2013
   - April 16, 2013
   - June 26, 2013
   - August 28, 2013
   - October 29, 2013
   - December 12, 2013

2. Selected and appointed Manabat Sanagustin & Co. as the Bank's 2013 external auditor and oversee the audit engagement and deliverables relative to their examination of the Bank's audited financial statements as of December 31, 2013.

3. Closely monitored the status of all Audit Committee directives to bank management.

4. Reviewed all reports issued by Internal Audit, Parent Bank auditors, Compliance and regulators.

5. Closely supervised the Bank's internal audit and compliance functions including review of the annual plans, MBO and effectiveness of both functions, which contributed to Internal Audit's 2013 rating of "A" from the Parent Bank (the highest rating again among the Parent Bank's 4 overseas subsidiaries).

6. Reviewed the Bank's 2012 audited financial statements as certified by Manabat Sanagustin & Co. including the net income reconciliation per books and per audit, audit and accounting issues and its resolutions and preliminary list of management letter comments. Endorsed the 2012 audited financial statements to the Board for approval of the shareholders.

7. Significant findings and issues noted by Internal Audit (e.g. improvement in internal controls and risk management in Branch Banking Operations, Special Assets Management and IT systems development life cycle and testings) and BSP were elevated to the Board of Directors and endorsed to management for resolution of these issues.

8. Reviewed and provided recommendations to improve the operational and credit risk management and internal control systems of certain units and branches of the bank.

9. Reviewed the audit plan of Manabat Sanagustin & Co. relative to their examination of the Bank's 2013 financial statements.

10. Monitored and tracked status of outstanding BSP findings as reported by Compliance Unit.

11. Reviewed and endorsed/approved the following updated charters and manuals:
    - Money Laundering & Terrorist Financing Prevention Program Manual
    - Client Information File Review Committee Charter
    - Parent Bank's Group Accounting Policy
    - Audit Committee Charter
    - Global Audit Policy
    - Compliance Testing and Risk Assessment Manual
    - Internal Audit Manual
    - Compliance Charter
    - Internal Audit's Risk Assessment Methodology
    - Compliance Manual

12. Closely monitored the project milestone and implementation of the bank's AML system enhancement project.

13. Monitored the status of the bank's CIF cleanup and FATCA projects.

14. Attendance record of Committee members for 2013.

Committee Members	**No. of Meetings Held**	**No. of Meetings Attended**
Edwin Villanueva	6	6
Ng Meng Tam	6	6
Peter Liu	6	6