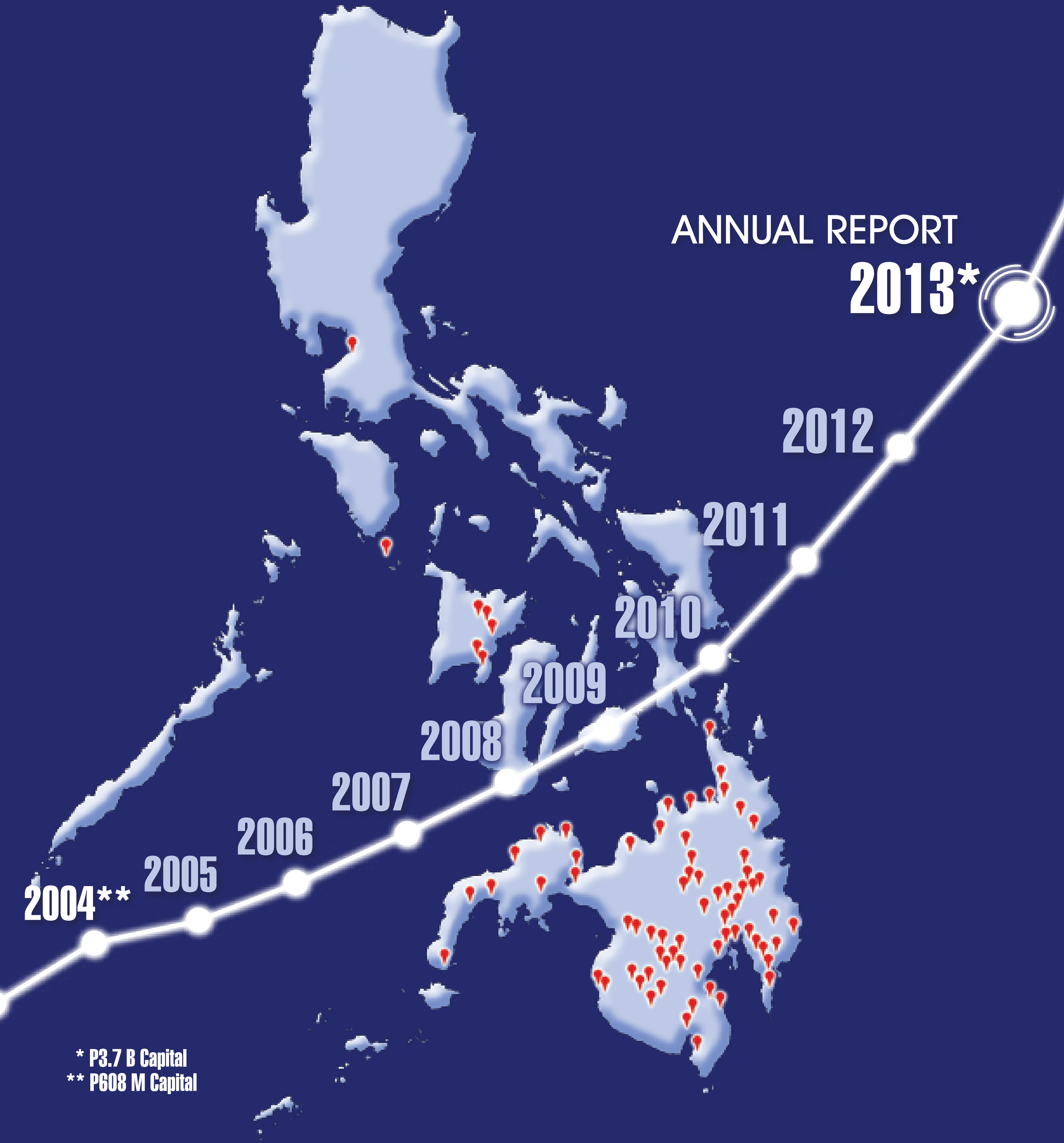
Tuloy ang paglaki.
Tuloy ang pag-unlad.

ANNUAL REPORT

2013*



* P3.7 B Capital
** P608 M Capital

Our Mission

One Network Bank will be the Philippines' widest banking network in progressive communities unserved or underserved by commercial banks, especially in rural areas, powered by values-driven professionals with a deep sense of mission to provide these communities easy access to modern quality banking services.

Our Vision

One Network Bank will...

- **Aggressively build up capital in order to widen branch infrastructure and to provide the widest possible array of financial products and services;**
- **Accelerate and deepen presence in progressive communities unserved or underserved by commercial banks;**
- **Ensure holistic development of human resources guided by ONB core values;**
- **Provide access to innovative & quality lending programs to small farmers and small businessman;**
- **Provide special banking services for rural banks, cooperatives and multi-branch institutions;**
- **Implement best practices in compliance, risk management and good governance;**
- **Provide shareholders with rates of return on investment that are highest in the banking industry.**

About the Cover

ONB's Annual Report 2013 cover page illustrates two vital gauges of banking growth and success: unprecedented capital growth and a continuously expanding branch network.

ONB's growth story started when Network Rural Bank of Southern Philippines was formed in 1993 when it went through its first consolidation.

The tipping point of growth was reached in 2004, the year when three of the most profitable rural banks in the country at that time - Rural Bank of Panabo, Network Rural Bank (Davao) and Provident Rural Bank of Cotabato - consolidated to form One Network Bank (ONB), a wider network of branches that would make affordable banking platforms and solutions easily accessible to unbanked and underbanked communities. ONB then started with a capital of P608 million and a Capital Adequacy Ratio (CAR) of 22%.

For nine years following this consolidation, ONB sustained growth by institutionalizing a policy of plowing back all earnings to strengthen its capital base. In 2013, after 20 years of vigorous expansion, ONB attained a robust capital base of P3.7 billion, maintained a CAR of 18.39%, built a network of 98 banking offices, deployed a fleet of 147 ATMs and employed more than 1,400 employees. These parameters make up a footprint that is more than enough to support the claim that ONB is indeed the widest and most modern rural bank in the country.

ONB remains confident in sustaining its success in the rural banking industry because its banking principles and practices are deeply rooted in a distinct commitment: ''Pera ng Mindanao, Para sa Mindanao''. Coined 20 years ago by Network Rural Bank, the catchphrase underscores the bank's imperative of reinvesting deposits generated in the local community to invigorate development in the same community. It is in upholding this pledge year after year, since the bank started with only 9 branches and 77 employees in 1993, that the present-day ONB is driven to broaden its footprint outside Mindanao and extend its brand of modern countryside banking to more unserved and underserved areas in the country.

ONB looks forward to continue boosting its capital - a vital gauge of strength of any institution - as it pursues establishment of additional branches and ATMs, activation of modern electronic banking facilities and hiring more professionals.

ONB. Tuloy ang Paglaki. Tuloy ang Pag-unlad.

Financial Highlights

2013 Year End Performance

OPERATING RESULTS (IN MILLIONS)	2013	2012	2011
Operating NIAT	**709**	568	315
Total Comprehensive Income After Tax	**618**	569	521
Resources	**25,753**	20,137	15,614
Net Loans and Receivable	**18,703**	14,955	10,407
Deposit Liabilities	**18,000**	14,108	10,508
Stockholders' Equity	**3,705**	3,070	2,467

SELECTED FINANCIAL RATIOS	2013	2012	2011
Return on Private Investment	**35%**	35%	26%
Return on Assets	**3%**	3%	2%
Risk-Based Capital Adequacy Ratio	**18%**	18%	19%
Intermediation Ratio	**100.5%**	99%	98%
Liquidity Ratio	**18%**	24%	33%
Expense to Gross Income Ratio	**75%**	77%	83%
Non-Performing Loans (NPL)	**2%**	2%	3%
Non-Performing Assets (NPA)	**2%**	2%	2%

Number of Employees	**1,480**	1,318	1,206
Number of Branches	**98**	96	82
Number of ATMs	**143**	135	114

President and Chairman's Message

"Tuloy ang Paglaki, Tuloy ang Pagunlad"

It is with great reluctance that we are shifting away from our popular slogan – "Pera ng Mindanao, Para sa Mindanao". This eloquently captured our commitment to re-invest in Mindanao all funds we generate from the communities we serve when we started out on our mission of service. We differentiated ONB from the rest of the banking industry on the strength of this tag line. No other financial institution operating in Mindanao could live up to this commitment.

But as we pursue our vision to deploy our services to more and more unbanked and underbanked communities, we have extended our footprint outside Mindanao. We consequently outgrew our slogan, but not the spirit of committing to plow back resources we mobilize to the communities served by ONB. We believe this driver makes ONB the quintessential growth model in banking.

In 2013, ONB completed its 20th year since its first business consolidation. We bring you back to 21 June 1993 when 6 rural banks merged to form the core of what was then known as Network Rural Bank and to 12 March 2004 when Network Rural Bank consolidated with Rural Bank of Panabo and Provident Rural Bank of Cotabato to form One Network Bank, now known as ONB. Over the 20 years of growth, ONB pulled together 12 rural bank licenses to emerge as the widest rural banking network in the country today.

The phenomenal growth metrics since the initial merger in 1993, the 2nd combination in 2004 which made ONB the country's leading rural bank up to the ONB of present time is shown below:

	1993	2004	2013
Net Income After Tax (M Pesos)	(1)	141	709
Resources (M Pesos)	152	3,085	25,753
Deposits (M Pesos)	92	2,343	18,000
Net Loans (M Pesos)	80	2,047	18,703
Non-Performing Loans Ratio (%)	36	8	2
Equity (M Pesos)	47	608	3,705
Number of Banking Offices	9	51	98*
ATMs	nil	5	143
Number of Employees	77	651	1,481

** includes La Paz, Iloilo City Extension Office opened January 2014*

The performance measures established during this span of 20 years have been consistently exceptional:

- From the initial 9 branches in 1993, we ended 2013 with 98 banking offices, including 6 in Iloilo, 1 in Guimaras Island, 1 in Semirara Island in Antique and 1 in Makati City.
- Even as our first year as a merged operation in 1993 ended in a loss of Php 1M, losses have never recurred as ONB became a consistent profitability leader in the banking industry. Our net income reached a level of Php 141M when we consolidated in 2004 and rose further to the 2013 level of Php 709 M. This income level was 25% higher than 2012 income of Php 568M, while the rural banking industry posted a 9% decline in net profit.
- The 2013 return on private investment of 35% is a glowing testament of ONB's profitability considering that the industry posted a return on private investment of 6.75%.
- From a Php 152M resource base in 1993, ONB exceeded Php 3B in resources in 2004 and reached a total resource level of Php 25.75B by end 2013, 28% higher than the 2012 level and better than the rural banking industry's growth of 8%.
- Deposits rose from Php 91.5M in 1993 to Php 2.3B in 2004 and eventually expanded to Php 18B in 2013. This last year's 28% rise in deposits over the 2012 level is stronger than the industry growth of 12%. The deposit surge is now accounted for by 663,000 account holders, fuelled the robust 25% expansion of ONB's loan book to Php 18.7 B in 2013. ONB presently has 104,400 borrowers. This loan portfolio amounted to merely Php 80M in 1993 before reaching Php 2B in 2004. At the same time prudent lending allowed ONB to slash its non-performing loans ratio from 36% in 1993 to 8% in 2004, and to 2% at the end of 2013. The rural banking industry reflects a NPL of 21.36% for 2013.
- From only Php 47M in 1993, the Bank's capital reached Php3.7B by yearend 2013, a substantial expansion from its 2004 equity level of Php 608M. Capital adequacy ratio of 18%, well beyond the statutory banking industry standard of 10%, has been shored up by the continued policy to plow back all earnings, another differentiating trait in the ONB genome makeup.
- In line with its vision to provide modern banking services, ONB's ATM network has reached a count of 143 machines, many of which are deployed in communities where ONB is the sole provider of ATM services. Further modernization moves into internet banking and point-of-sale (POS) terminals have already been made.
- Of course this growth could not at all been made possible without the untiring efforts of our corps of professionals which only numbered 77 in 1993. After the 3-way consolidation in 2004, the staffing increased to 651. As of end 2013, we now have a professional staff of 1,481 and this growth continues to be reinforced by sustained training programs to provide each and every ONB

employee the skill set to be able to extend the quality of service our clients richly deserve. And it is with great pride that, through our wholistic training programs, we lay claim to having developed an overwhelming majority of our officer corps from within, guided by our values as well as processes that have been continuously improved through time.

While all the foregoing metrics are exceptional in outlining the pervasive culture of continuing excellence woven into the tapestry of ONB's history, we remain steadfast in our commitment to continue extending and improving our financial infrastructure to the unbanked and the underbanked growth points in our nation. It is in this spirit that we have chosen to adopt "Tuloy ang Paglaki, Tuloy ang Pagunlad" as our mantra for the future.

We have always believed, from the inception of ONB, that formal banking access is the forerunner of financial inclusion, its necessary condition. We continue to hope that, with the continuously improving range of modern banking products and services offered by ONB, the access provided by ONB will also be a more than sufficient, even essential, condition for this inclusivity.

Victor A. Consunji
Chairman

Alex V. Buenaventura
President

Providing Capital for Countryside Development

"*Pera ng Mindanao, Para sa Mindanao*" – a business philosophy that brought ONB to prominence – was conceived as early as 1993 during the launch of Network Rural Bank of Southern Philippines. Network Bank, as it was then known, directed the efforts of its nine branches to provide affordable credit resources from the funds pooled in the communities it served and posted a loan portfolio of P 8.64 million by the end of the year. Twelve years thereafter, Network Rural Bank, Rural Bank of Panabo and Provident Rural Bank of Cotabato consolidated to form One Network Bank, Inc., the widest rural banking network in the country that would fortify the commitment to enable rural areas to enjoy modern quality financial services. Through this consolidation, ONB successfully extended a total amount of P2 billion to the borrowers of its 51 branches in 2004.

In its 20th year in operation since its first consolidation, ONB continued to enjoy impressive growth in its lending business, the result of sustaining its pledge to provide companies and industries, small and medium sized enterprises, farmers and fixed income earners with adequate access to financial opportunity.

ONB chalked up a year-on-year increase of 23.2% to P18 billion in its loan portfolio in 2013, manifesting its success in responding to the wide-ranging needs of countryside businesses and industries. The bank's flexible range of credit facilities reached 104,400 borrowers with an average loan account size of P170,000. In 2013, ONB was also conferred a Land Bank of the Philippines Gawad Countryside Financial Institution (CFI) Golden Award for topping the list of LBP-assisted CFIs that have extensively contributed to promoting progress by delivering timely credit to underserved sectors in rural areas.

At the heart of the bank's lending programs is a sustained effort to nurture and enrich its relationship with clients by understanding their credit needs and calibrating credit to their particular needs. ONB will continue to create relevant lending responses to the growing needs of its customers to support their business growth. With this enduring dedication of the bank, any successful entrepreneur in the countryside can claim with full pride, "*Dito ako lumaki*".

One Business Loans

Through its wide range of credit facilities, the bank expanded its business loan portfolio in 2013 by almost 40% from the previous year. In so doing, ONB was able to serve the credit needs of the full range of its clientele, ensuring that the Bank remains ready to support the varied needs of a growing business. These loans are painstakingly packaged by the corps of ONB's credit analysts who, together with our clients, go through the critical components of the business in order to craft credit solutions that squarely address the needs of the institutions at the time of need while satisfactorily managing credit risks. These infusions of capital stimulate the local economies through income multipliers created from increased employment, domestic trade and other forms of improved resource use.

Cor Jesu College, Inc.

"The building is an emblem of our institution's growth. Cor Jesu College, Inc. will always have a high regard for ONB, the bank with a heart for small and medium enterprises, which made this building possible."

Bro. Ellakim Sosmeña, SC, **President**
Bro. Ernesto Quidet, SC, **Vice President for Admin Affairs**

Cor Jesu College, Inc., Digos City, Davao del Sur

The new four-storey edifice of **Cor Jesu College, Inc.** in Digos City, Davao del Sur was born out of a shared aspiration for community progress to be realized. It was high time for the premiere institution that has been serving the educational needs of the province for more than 50 years to construct a new building with spacious rooms, good ventilation and necessary fixtures and equipment for its growing number of students and employees.

Bro. Ellakim Sosmeña, SC and Bro. Ernesto Quidet, SC both admire the efforts of the bank in enabling Cor Jesu College, Inc. to not only make the dream happen but also to dream some more. The affordable and flexible credit facilities as well as dependable customer service extended by ONB through its **One Business Loan** program have been essential. They hope to achieve more plans and goals for the school by partnering with ONB.

"HCDC is a growing community with increasing needs. We are happy that in addressing the concerns of our students, we are supported by a bank that can do all accommodations possible without compromising its policy."

Rev. Msgr. Julius C. Rodulfa, President
Holy Cross of Davao College, Inc., Davao City

Excitement builds up in **Holy Cross of Davao College, Inc. (HCDC)** – one of the leading educational institutions in the region – as construction of the remarkable seven storey school building in the main campus in Sta. Ana, Davao City is about to be completed. This eagerness furthers the dedication of Rev. Msgr. Julius C. Rodulfa and the rest of the HCDC management, in close partnership with ONB, to meet the demands of an ever-increasing student population. Catering to thousands of college students from Davao as well as from other neighboring provinces and islands, the school encountered pressing concerns of replacing the old building and adding more classrooms. With the help of ONB's **One Business Loan** program, HCDC was not only able to construct a new building that will ease the congestion in the classroom and provide students with better learning space but was also inspired to offer additional programs relevant to its current course offerings to strengthen its stake in providing quality education.

"*Madaling lapitan at madaling kausap ang ONB.* Because of the trust the bank has placed on us, we were able to reinforce the growth of our campuses in Mintal and Cabantian. Our achievements, through ONB's help, continue to inspire the Holy Child community in working towards a more meaningful growth."

Victoria D. Leuterio, President
Holy Child College of Davao, Davao City

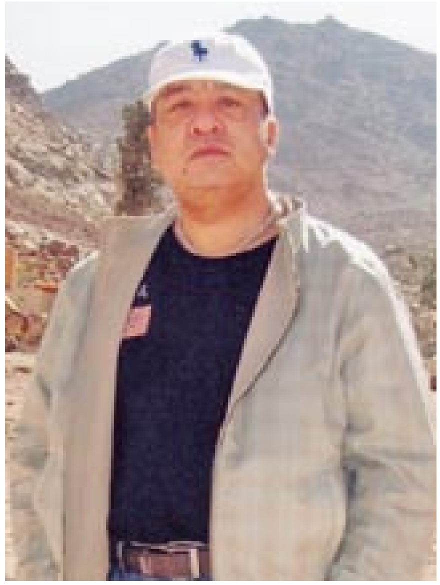
The **Holy Child College of Davao** has not only made its mark as one of the leading providers of quality Christian education in the downtown area of Davao but has also established vital presence in the peripheral but progressive areas of Mintal and Cabantian. President Victoria D. Leuterio credits the growth of the institution she has founded to its relationship with the bank of her choice. Through partnership with ONB, the school was able to put up new buildings in its Mintal and Cabantian campuses with facilities and equipment for the growing student population, all while maintaining a sufficient capital for its operating requirements. This also paved way for the institution to not only streamline its payroll process but to also extend salary loan to its employees at a lower interest. The PeraAgad ATM installed in the school's main office in Jacinto St., Davao City has made it convenient for the employees to immediately access funds credited to their payroll accounts. The Holy Child College of Davao is envisioning a purposeful development in the next ten years, stimulated by ONB's demonstration of reinvesting funds in the community in which it operates.


Rivera Medical Center, Inc.

"We prayed for a bank that can strengthen our mission to provide better hospital services for the province and found the answer in ONB – a bank that has grown by leaps and bounds over the years. Connecting to an institution that has gained relevant insight in assisting businesses in the countryside assures us that we can also do well in our endeavor."

Dr. Ramon Meliton Rivera, President
Rivera Medical Center, Inc.
Panabo City, Davao del Norte

Rivera Medical Center, Inc., (RMCI) a trusted brand in Davao del Norte that has been responding to the medical needs of the area since 1950s, recorded an increasing trend in bed occupancy rate over the years. While expansion was the only way to provide better yet affordable facilities and services, Dr. Ramon Meliton Rivera also wanted to get the best and most practical deal so he chose to team up with ONB in constructing a five-storey hospital building. With the new infrastructure, RMCI will be introducing more improvements such as state of the art facilities to accommodate the needs of patients in the area and those coming from neighboring municipalities. Additional working capital and bills purchase line extended by ONB are also instrumental in the daily operations of the hospital. The partnership between Davao del Norte's most preferred hospital and the country's leading rural bank is not merely founded on operating and growing in the same community. It is also bound by a shared purpose to provide better services to clients in the countryside.



"With a financial partner like ONB that has been my shield and sword in doing fair business, success is always possible. I envision more progress for the years ahead."

Joselito Mercado
Construction Business
M'lang, North Cotabato

As proprietor of one of the most established construction firms in Region 12, Joselito Mercado has mastered the art and science of handling horizontal and vertical construction projects. Partnering with ONB since 2001 has not only aided in the smooth implementation of his firm's projects like road concreting and upgrading, bridge structures, drainage systems, dams as well as commercial and residential buildings but has also enabled him to strike while the iron is hot. With additional funds that addressed operational constraints and allowed for the acquisition of various construction equipment, he is confident that he can complete more goals and outdo business performance of the previous years.

"What I like most about ONB is that it can respond to our needs like how a commercial bank does. It's like having an efficient business partner that facilitates faster transactions and renders good accommodation while doing so."

Grace Pulvera
Hardware Business
San Francisco
Agusan del Sur

Grace Pulvera believes that it is the trust and confidence of her customers that expanded her small business in 2000 to a full hardware and construction venture with operations in San Francisco, Bayugan and Panabo City thirteen years later. Trust is also a requisite in her decision to partner with a bank in growing her business. Upon recognizing the need for additional capital for warehouse expansion, the acquisition of a new vehicle and putting up a showroom, she knew that she had to seek the expertise of a bank that is equipped with knowledge and experience in supporting businesses in the countryside. By availing of ONB's **One Business Loan** program, Grace was also able to acquire sufficient funds to bulk up inventories to be placed in her new branch building in Bayugan, hence responding to increasing client demand.

Agricultural Lending Program

Accelerated efforts to improve the agricultural industry through credit facilities customized for farmers in Mindanao saw significant development in the size of farms and diversity of crops that ONB financed.

The bank sustained its support to more than 300 small banana growers in Davao del Norte through deployment of agri-production technicians who provide technical oversight and by representing small farmers with their contracted buyers and other agencies on important matters, thereby increasing their bargaining power.

From providing financial assistance to smallholders, the bank is also now able to accommodate the expansion ventures of big farmers. The bank continues to provide technical advisory services for these professionally managed big farms that are useful in times of unexpected hurdles in operation caused by disease and nutrients deficiency. By lending an arm to big farmers, ONB has also given farmworkers a leg up as doors are opened for them to enjoy higher wage and experience electronic payroll through PeraAgad ATM card which makes them at par with office workers in the city.

ONB is able to finance a variety of crops through **Secured Agri Consumer Loan**, a lending facility for short-term working capital for farmers producing crops such as rice, sugarcane, coconut, Cavendish banana, Lakatan banana, oil palm and rubber. **SACL** benefits farmers that are in need of a fast, convenient and more affordable production loan to finance various crops.

"ONB immediately addresses my concerns as businessman. I am confident that my partnership with the bank will yield good results."

Reichard Dumaluan
Banana Farmer
Pantukan, Compostela Valley

From a range of financial institutions promoting business lending programs, Reichard Dumaluan of Reicher Banana Farms, Inc. chose to partner with ONB to expand his existing 64 hectare cavendish banana plantation to 96 hectares. It was with ONB that he experienced the most efficient processing of his business needs. Frequent coordination with ONB Agri Production Technicians has also paved way for easier development and expansion of the farm. Employees of Reicher Banana Farms, whose payroll is serviced by ONB Pantukan, are also enjoying convenient access of their salaries because of the availability of a PeraAgad ATM near the plantation.

"It is only with ONB that we experienced affordable interest rates and reliable service of the branch staff."

Lurelyn & Larry Galon
Sugarcane Farmers
Don Carlos, Bukidnon

As farmers who have been enjoying affordable and flexible business loans offered by ONB since 2002, Lurelyn and Larry Galon gained first-hand experience of the bank's commitment to develop responsive lending programs for farmers. Loans made through ONB paved the way for the purchase of a truck that was useful in delivering sugarcane to buyers and increase their area for sugarcane production from 3 hectares in 2002 to 11 hectares by end of 2013. This growth in sugarcane area opened windows for increased business liquidity through **Secured Agri Consumer Loan**, a no-fuss lending product that extends a loan based on productive hectarage of selected crops. Payment terms of loans availed through **SACL** are designed to coincide with the period and frequency of harvest, or in other words, cash flow of the farm.

Salary Loan Program

The year saw ONB respond to the needs of fixed income earners to gain access to secure, hassle-free loans, as demonstrated by the 22.99% growth of the bank's salary loan portfolio to P14.65 billion.

Results of a consumer research done by the bank revealed that proceeds availed through **One DepEd Salary Loan** program, accredited by DepEd under the Auto Payroll Deduction Scheme, were instrumental to teacher-borrowers' investment projects such as constructing and improving their houses and financing the education of their families. ONB's DepEd loan portfolio has reached P 12.46 billion or an increase of 20.15% over 2012 – a positive indication that the bank is doing well in making its lending program accessible and convenient to more public school teachers.

Lower interest rates, longer payment terms and fast processing of loans are also what makes **One LGU Salary Loan** program appealing to local government employees. In 2013, **One LGU Salary Loan** program posted a 48.55% growth to P 1.71 billion.

Since loan proceeds are automatically credited to an ONB PeraAgad ATM card that comes for free, borrowers of these fixed income loans are enjoying the convenience of accessing funds at any PeraAgad ATM or BancNet, Megalink and Expressnet ATMs, paying for purchases at all point-of-sale terminals nationwide and accessing their account through **BancNet Online**.

"ONB's borrower friendly loan program significantly helped me in responding to the immediate needs of my family."

Benjamin Cabales
LGU Employee
Mati City, Davao Oriental

Benjamin Cabales, an administrative officer at the Provincial Agriculture Office in Mati, Davao Oriental gives credit to ONB for helping him in achieving his family's goals for as long as he can remember. ONB's affordable loan program for government employees has enabled him and his wife who also works for the local government unit to send their two daughters to college and more recently, finance the needs of their younger daughter in processing her application for employment in Dubai. With the fast processing of application and immediate crediting of loan proceeds, Benjamin was also able to complete construction of his house and furnish it with necessary appliances.

"Supporting the education of our four children has been easier because of One DepEd Salary Loan program. ONB renders excellent customer services with fast processing of application, quick releases and teacher-friendly rates."

James & Felipa Cipriano
DepEd Teachers
Maramag, Bukidnon

Both serving as public school teachers for more than 20 years, Felipa and James Cipriano needed more than their combined income's worth to be able to provide good education for their children. Loans availed through ONB's salary loan program for DepEd teachers enabled them to support their children who took up degrees in education, nursing and financial management, with the eldest son Jayfelson currently being trained as a Branch Operations Officer in ONB. They were also able to put up a rice retailing business through the loan proceeds which has augmented their family's earnings.

Supporting Business Processes with Appropriate Modern Banking Solutions

When commercial banks started a new generation of services called cash management solutions a decade or so ago, ONB was just starting to embark on its first electronic banking channel, the ATMs. The challenges of electronic banking through ATMs have been hurdled since and the deployment of a strong fleet of ATMs has become one of the greatest achievements of ONB in upholding its commitment to provide modern banking services to the countryside.

Thus, in 2008, fuelled by the changing economic environment, the bank started looking at extending the same unmatched banking convenience to its business clientele. As ONB started calibration of its core banking solutions, the bank realized that investing in platforms to improve business banking and cash management services can further stimulate the growth of businesses in the countryside.

Following efforts that ensued to aggressively push ONB's suite of cash management services to more businesses, 2013 has been an exceptionally good year for the bank as reflected by the influx of its corporate and big business clients. By leveraging on a combination of strategically dispersed branch network and modern delivery channels for banking services, ONB has assembled a complementary array of products and services that can strengthen and streamline financial workflows of businesses.

Under **One Special Banking Services (OSBS)** program, business banking and cash management are made convenient through products and services delivered through ONB branches and through ONB's web-based business banking platform, thereby improving business operations of countryside institutions as well as corporations operating out of the country's economic center with their counterparties in Mindanao.

OSBS is packaged through an agreement and is supported by ONB's full-service internet banking system called **Business Online Banking**. This modern banking channel relieves busy clients from the hassle of physically going to the bank as internet banking enables direct online access to accounts for real time banking transactions and streamlines payment and collection processes, thus significantly reducing costs and optimizing working capital for operations.

An integral part of the bank's outlook for the years to come is to focus on delivering a combination of technology and customer-driven services that blur operational boundaries between the countryside and Metro Manila, the hub of corporate business. ONB looks forward to complementing operational and administrative efficiencies of distributors, dealers and other small and medium-sized companies in their transactions with their principals in Metro Manila and other business centers in the country. On the other hand, these multinationals and big corporates will benefit as well in taking advantage of the bank's strategic dimensions of reach and deep familiarity with countryside businesses that their commercial bankers may not have.


Anytime.
Anywhere.
ONB
Online Banking
MacBook Air

"Through ONB Deposit Pick Up Service, we are able to secure daily cash collections even from stations located at the most saturated areas. The bank's efficient online banking tools give us maximum visibility of our liquid assets across all areas in Mindanao. We can also easily facilitate our banking arrangements through the bank's branch in Makati. Also, ONB's personnel are highly commendable - they are friendly and very accommodating. ONB operates dynamically like any other commercial bank."

Cristina G. Viola, CFC, Vice President for Finance
SEAOIL Philippines, Inc., Makati City

ONB and SEAOIL Philippines, Inc., the country's leading independent fuel company that breaks away from the rest through its innovative products, both share a common vision: to become the leading provider in the countryside areas where they have established presence. In growing its network of retail stations in Mindanao, SEAOIL Philippines, Inc., needed to find a partner with whom it can entrust daily sales collection from company-operated stations in the region. Putting value on the recommendation of SEAOIL's trusted dealers and partners, the company entered into a **Deposit Pick-Up Service Agreement** with ONB. This service allowed SEAOIL to secure daily cash collection and ensure that their stations and personnel are safe from any untoward incident related to cash handling. Vice President for Finance Cristina G. Viola, CFC is delighted that they have chosen to team up with a bank that can customize deposit requirements according to their need.

"When we began looking for banks we can partner with, we saw the potential that ONB can bring. We are impressed that the bank is not only after growing its profits. Its programs and products are aligned to achieve social growth. The bank fuels the development of the countryside and to us, this is just impressive."

Most Rev. Orlando Cardinal Quevedo, O.M.I., D.D.
Archdiocese of Cotabato

Cotabato Archbishop Orlando Cardinal Quevedo has been appreciative of ONB ever since he learned of the bank's efforts to provide access to quality lending programs to farmers and teachers at a cost they can afford. Today, Cardinal Quevedo and the rest of the affiliates of the Roman Catholic Archdiocese of Cotabato are also gaining from the bank's commitment to provide special banking services for institutions with multiple branches in the countryside and have been enjoying streamlined financial workflow. This was made possible through the availment of **One Special Banking Services** agreement with ONB last August 2013, before Cardinal Quevedo was inducted into the College of Cardinals as the first Cardinal from Mindanao. **OSBS** allowed 12 Archdiocesan Notre Dame Schools of Cotabato, nine parishes and a spiritual center to enjoy a customized range of ONB deposit and loan products and remittance and payment services that are based on average daily balance with no service fees and with special interest rates.

"As a cash management facility, OSBS makes collection of funds from all parishes in North Cotabato easier, which allows us to facilitate the services we do as a church in an efficient manner. Because of the services it brings and its remarkable branch network, ONB works like a commercial bank. *Ang galing ng ONB!*"

Most Rev. Bishop Romulo T. Dela Cruz, D.D.
Diocese of Kidapawan
(newly appointed Archbishop of Zamboanga)

Before he assumed his post in the Archdiocese of Zamboanga, Most Rev. Bishop Romulo T. Dela Cruz, D.D. was already impressed of the strength displayed by ONB over the years. As previous head of the Diocese of Kidapawan, one of the first Dioceses to sign up for **One Special Banking Services** agreement with ONB, Bishop Dela Cruz saw how collection of funds through the bank's branch counters in North Cotabato improved liquidity, reduced cost and minimized risk. Since all institutions under the diocese are included in the aggregated "Average Daily Balance"(ADB) requirement, parishes and schools are benefitting from higher interest rates on deposits and affordable loans, such as those used to fund the purchase of service vehicles for the Diocese which have been very useful in carrying out services to its constituent parts.

"Being able to access our accounts, transfer funds and pay bills without physically going to the bank saves us a lot of time. ONB Business Online Banking lets us accomplish fast and secure transactions while managing the daily operations of our business. ONB's cash management facilities like deposit pick up and bills purchase line are also vital in protecting our daily sales and improving liquidity."

Evelita Compra, Marbhen Compra & Vanessa Compra
Multiple 8 Merchandise
Calinan, Davao City

The grocery and agri supplies store put up by the Compra family twenty years ago is just a stone's throw away from the ONB branch in Calinan, and yet trips to the branch have trimmed down over the years because of the bank's aggressive push to bring its products and services even closer to clients. Enrolment in ONB's Internet banking facility called **Business Online Banking** in 2012 has relieved them of the stress of going back and forth to the bank every day to confirm receivables from copra buyers who send payments from ONB branches in Toril and Monteverde and transfer funds from their savings account to checking account to be able to pay over 30 general merchandise suppliers. With **BOB**, they can immediately view the flow of transactions under each account, perform quick fund transfers to augment their checking account when negotiating good deals with distributors and even forward bills payment to PLDT on time – all from the comfort of their office. The Compra family is also relieved of the risky task of transporting their daily sales to the bank through ONB's **Deposit Pick-Up Service**. A **Bills Purchase Line** was also provided to the family business to improve day-to-day liquidity without needing to wait for check clearing times.

Banking Services Made More Convenient

Over the years, ONB expanded its initiatives to enhance service delivery and improve client experience through value added facilities. By making practical and dependable bills payment and remittance solutions available to more unserved and underserved areas, the Bank serves families, OFW beneficiaries and business proprietors. It also provides corporate clients and institutions a streamlined financial workflow especially in countryside locations that have limited financial infrastructure. For the Bank, sustained performance of **PeraBayad Bills Payment** facility and **PeraDala Remittance** service throughout the years rounded off its menu of products and services aside from beefing up its non-interest income.

PeraDala Remittance

Three years into its creation in 1992, ONB, then known as Network Rural Bank, joined some of the rural banks in the country in partnering with a money transfer company called Uniteller and with a commercial bank, RCBC. The purpose was to take part in the rapidly growing remittance market and share in the non-interest revenues.

In the years that followed, ONB started expanding its own strategic alliances for remittances. Today, the bank provides the 'last mile' for the delivery of remittances originating from 14 foreign remittance tie-ups and intends to expand the service in order to provide clients with an increasingly broad choice of remittance channels to tap, thus providing them with adequate options for accessing remittances at terms of their own choosing. The Bank will continue to provide the OFWs and beneficiaries who are mostly living in the rural areas not only accessible and safer mechanism of receiving money but also a wider array of banking services.

In 2013, ONB paid out foreign remittances, mostly deposited to savings account, amounting to a total of P286 million or a 6% growth from the previous year. Contributors on the 'first mile' or sending end of the transactions are the following 14 foreign remittance tie-ups:

BDO Remit	**ABS-CBN e-Money Plus**	**Xpress Money**
iRemit	**XOOM**	**UniTeller**
AUB Gintong Hatid	**PNB**	**BPInoy**
Moneygram	**RCBC Telemoney**	**China Bank**
GCash Remit	**DBP**	

Following the success of foreign remittance alliances, ONB started venturing into the domestic remittance market in 2006 with **Remit Agad**, an arrangement with **Security Bank** that allows the sending and receiving of remittances thru any ONB or Security Bank Branches in the country. This was later replicated with other domestic remittance tie-ups with **GCash** and **Palawan Pawnshop**. These three (3) strong arrangements resulted to the successful servicing of a total of P276 million domestic remittances in 2013, more than double the amount of the previous year.

Prior to 2004, when the fax machine was the main tool for processing interbranch transactions, the Bank was moving a monthly average of P60 million of fund transfers between branches. In 2008, when interbranch transaction was integrated into ONeBanker, the bank's centralized core banking system, the monthly average of fund transfers was more than P500 million. In 2013, funds moved through **PeraDala Interbranch** transactions surged to a substantial level of **P38.5 billion**, an increase of 42% from previous year, or a monthly average in excess of P3 billion, covering interbranch cash deposits, cash withdrawals, check encashment and check deposit.

In the years to come, the efficiency of the PeraDala service will be enhanced by modern system interoperability for quick processing as well as increased controls for "know-your-client" or KYC and anti-money laundering (AML) procedures. ONB looks at enabling PeraDala services through its **PeraAgad ATMs** and point-of-sale terminals called **ONB CashPoint**. The bank also recognizes that innovative approaches are needed to reach more and more people without the inconvenience of traveling to a banking outlet and therefore plans on tapping mobile phone banking through **BancNet** as one of the platforms for fund transfers and payment services.

PeraDala Interbranch Fund Transfer

“ONB’s interbranch fund transfer is the most affordable, safest and fastest means for me to send payments to Lebak and Kalamansig.”

Rufino Arapoc
General Santos City

ONB’s **PeraDala Interbranch Fund Transfer** or **PeraDala IBT** renders a practical payment workflow for Rufino Arapoc, a fish trader with main operations in General Santos City, who decided to concentrate on his business after retirement. Rufino is confident that with the presence of ONB branches in underserved municipalities of Lebak and Kalamansig in Sultan Kudarat as well as in Pagadian in Zamboanga del Sur, his fish suppliers are able to receive payments immediately and in a secure manner. The client also commends the prompt catering of the bank staff that makes his transactions more convenient.

PeraDala Domestic Remittance

“The branch network of ONB makes it easier for us to receive and move funds.”

Charito Lerio Perocho
Sto. Tomas, Davao del Norte

Managing an appliance center and supervising the financial operations of her husband’s banana trade all while raising her four children can sometimes be tough for Charito Perocho. That is why she is glad to be served by a bank that relieves her of unnecessary hassles, in addition to keeping her funds safe. ONB’s interbranch fund transfer facility lets her enjoy convenient daily remittance of payments to cavendish banana suppliers based in Kapalong. In the same way, ONB’s domestic remittance partnership with Security Bank Corp., **RemitAgad**, enables her to receive payments from the buyer based in Davao City.

PeraDala Foreign Remittances

"ONB best caters to my needs and has allowed me to experience the most convenient means of receiving remittance from my husband."

Hesyl Lumantas
Nabunturan, Compostela Valley

As a young housewife married to an overseas Filipino worker in Australia, Hesyl Lumantas believes in the importance of saving a portion of the money sent by her husband in a bank she can trust. She chose to bank with ONB, not just because of the tie up between the bank and **iRemit** which makes it easier for her to access the funds remitted but also because it complements her need for modern banking products and services. For instance, the same PeraAgad ATM card to which her remittance is credited lets her pay for purchases whenever she travels outside Nabunturan. Hesyl also finds it convenient that she can check her account balance through ONB Personal Online Banking powered by BancNet.

PeraDala Foreign Remittances

"My son's hard earned money arrives safely. I also feel safe claiming funds from an institution I trust."

Leoncia Yray
Lupon, Davao Oriental

ONB and global money transfer company **MoneyGram** lets Leoncia Yray enjoy quick and reliable remittance from the Middle East. She has specifically requested her son to send his monthly support to ONB Lupon Branch where she has experienced fast processing of transactions and a comfortable banking experience in general. ONB also helps Leoncia in introducing the concept of saving for the rainy days to her grandson Vince John. The grade school student tags along with his grandmother every month to update his Young PeraSavers account to which his father sends funds.

PeraBayad Bills Payment

After the 2004 consolidation, ONB, encouraged by the rising volume of **SSS** and **Philhealth** contributions received in branches, realized the potential of establishing branches as a one-stop payment venue for clients with payment transactions to multiple billers. The PeraBayad was created purposely to eliminate the manual procedures of bills payment at tellers' counters and to centralize the processing of proprietary bills collection arrangements. With the centralized **PeraBayad** system, clients benefit from quick transaction processing while billers are also provided with an efficient daily monitoring and reporting process.

For 2013, ONB posted a collection of P79 million, with telephone bill payments taking up 86% of the total volume. SSS contributions processed through the bank's branch counters - including the extension office and the only bank operating in the island of Semirara in Antique - reached P131 million while a volume of P22 million was posted for PhilHealth premium collections, with contributions coming from as far as Molave in Zamboanga del Sur, Glan in Sarangani Province and Antipas in North Cotabato. Bills payment for telecommunication companies such as **Smart**, **Bayantel**, **Globe** and **PLDT** as well as tuition and other fees for **Ateneo de Davao University**, **Davao Doctors College**, **Holy Cross of Davao College** and **Mountain View College** are accepted at any ONB branch.

The countryside will be pampered with more innovative means of sending and receiving money as well as bills payment options in the years to come as the bank gears towards adding modern electronic channels via Internet, mobile, point-of-sale terminals and automated teller machines as alternates to over the counter transactions.

PeraBayad Philhealth and SSS

"The proximity of the branch and the warm accommodation of its staff make banking an enjoyable experience."

Katrina Emily Tupas
Glan, Sarangani Province

Katrina Emily Tupas divides her time between serving as a public health nurse at the Sarangani Provincial Health Center and assisting in the long running copra trading business of her family. Prior to the establishment of an ONB branch in Glan, paying Philhealth and SSS contribution of their employees and five members of her family entailed traveling all the way to General Santos City. Now, Katrina is able to make payments on time and in a comfortable way through ONB's bills payment facility called PeraBayad through which she can course the premium contributions of her family members and of those employed in their business.

PeraBayad for Telcos

"When it comes to paying bills, *dito na ako sa mas convenient!* I love ONB, I feel like I am part of the family here."

Kathy Jane Mercado
Tacurong, Sultan Kudarat

Waiting in a cramped room for a long time along – that is how Kathy Jane Mercado remembers her former practice of paying bills for her **PLDT** internet usage. After discovering that she can perform the same transaction in an easier and comfortable way at ONB Tacurong Branch, she has never looked back. In addition to its wide and modern interior, she enjoys the accessible location of the branch and the dedication of the staff in serving clients. Kathy finds the bank's services very fitting for her needs that not only did she transfer her savings account from commercial banks to ONB but also convinced many of her friends and family members to bank with ONB.

PeraBayad for Tuition Fees

“Because of the nature of my work, I can pay for my daughter’s tuition fee only on Saturdays. Good thing there’s a bank that makes Saturday banking convenience possible in Isulan.”

Melinda Llemit
Isulan, Sultan Kudarat

Melinda Llemit works hard as a data communications operator at Police Regional Office XII at Tambler, General Santos City to be able to provide for the needs of her daughter, a fourth year BS Architecture student at the **Ateneo de Davao University**. Paying for her tuition fee and sending of allowance used to be a problem, however, because Melinda’s office is far from the city proper. It was her daughter, upon looking for means to avoid bringing a hefty amount of cash every time she receives funds for school, who learned that tuition fee payments to ADDU can be sent through all ONB branches. Because Melinda comes home to Isulan on weekends, this was the best arrangement not only for sending funds that are credited directly to her daughter’s university but also for depositing weekly allowance to her PeraAgad ATM card.

“I am thankful for the availability of tuition fee payment for Mountain View College in ONB Koronadal. And with the presence of a PeraAgad ATM in her campus, I no longer have to worry about my niece being exposed to security risks when claiming the allowance I sent.”

Lydia Perez
Tupi, South Cotabato

Just as Lydia Perez wants the best for her niece Rizadel Buhat, a BS Nursing student in **Mountain View College** located outside Valencia, Bukidnon whose tertiary education she has vowed to support, ONB also aims to render comfortable bills payment procedures for its clients. The bank’s tie up with Mountain View College delights parents and guardians like Lydia with fast crediting of tuition fee payment to MVC and enables students to access funds sent to their accounts through the **PeraAgad ATM** installed in the school. Aware of incidents of holdup near common remittance centers, Lydia is now satisfied to have learned a more efficient means for her niece to receive funds allotted for tuition fee payment and for her allowance.

Expanding the ONB Footprint

Dingle Branch, Iloilo

One Network Bank has long operated as a rural bank, one that stands out in the rural banking industry in how it has reshaped its operations over the years and consistently outperformed its peers. Indeed, from its humble beginnings in 1993 as Network Rural Bank of Southern Philippines with nine (9) branches, the Bank boasts of a wide network of 98 banking offices and a fleet of 143 ATMs.

In its effort to grow into a strong and stable bank, One Network Bank has been driven by a vision of expanding into the countryside market, providing excellent banking products and services and grabbing the opportunity to become the community bank of choice in many of the countryside's growth points. The tipping point in the bank's growth impetus came in 2004 when the decision came to consolidate resources with two other strong rural banks and bring about a multitude of changes, from infrastructure to wider services. The robust tradition of growth in its branch network in the last 20 years emphasized ONB's long-term commitment to its market of progressive but underbanked or even unbanked communities, its employees and its clients.

Encouraged by its long-standing relationships with financial and non-financial stakeholders and in order to keep up its growth momentum in the midst of the continuing need for its presence in more progressive communities, ONB took on greater goals in 2013. In addition to stepping up employment to reach around 1,500 professionals and investing in high-tech banking platforms and solutions, the bank strengthened its business positioning through continuous branch and ATM network expansion, allowing more clients greater access to modern yet affordable banking services.

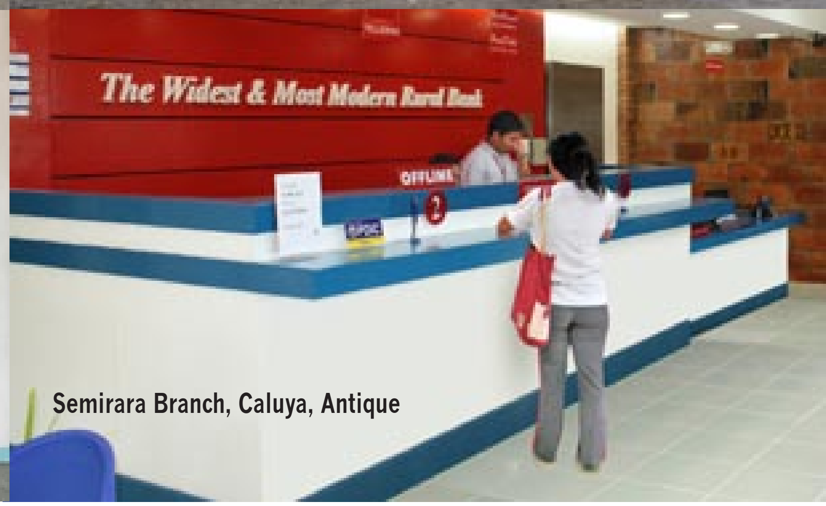
The merger with the former Rural Bank of San Enrique in Iloilo enabled ONB to immediately expand its brand of banking services through five (5) branches in Panay and in the neighboring Guimaras Island in 2013. These five branches are in Iloilo City, Dingle, Passi, San Enrique and Jordan in Guimaras. After relocating Dingle branch to a new and modern site, the rest of the branches are being refurbished to the standard look and feel of an ONB Branch that denotes availability of innovative and affordable banking products and services. A sixth banking office was later opened in La Paz, Iloilo City in early 2014, presaging ONB's continuous aggressive infrastructure buildup in Western Visayas.

Relocation and construction of bigger branch buildings were done in Midsayap in North Cotabato and Isulan in Sultan Kudarat and these mirrored the bank's enduring goal to provide more comfortable and spacious interiors as well as additional parking spaces to

Midsayap Branch, North Cotabato

Isulan Branch, Sultan Kudarat

La Paz Extension Office, Iloilo City



Semirara Branch, Caluya, Antique

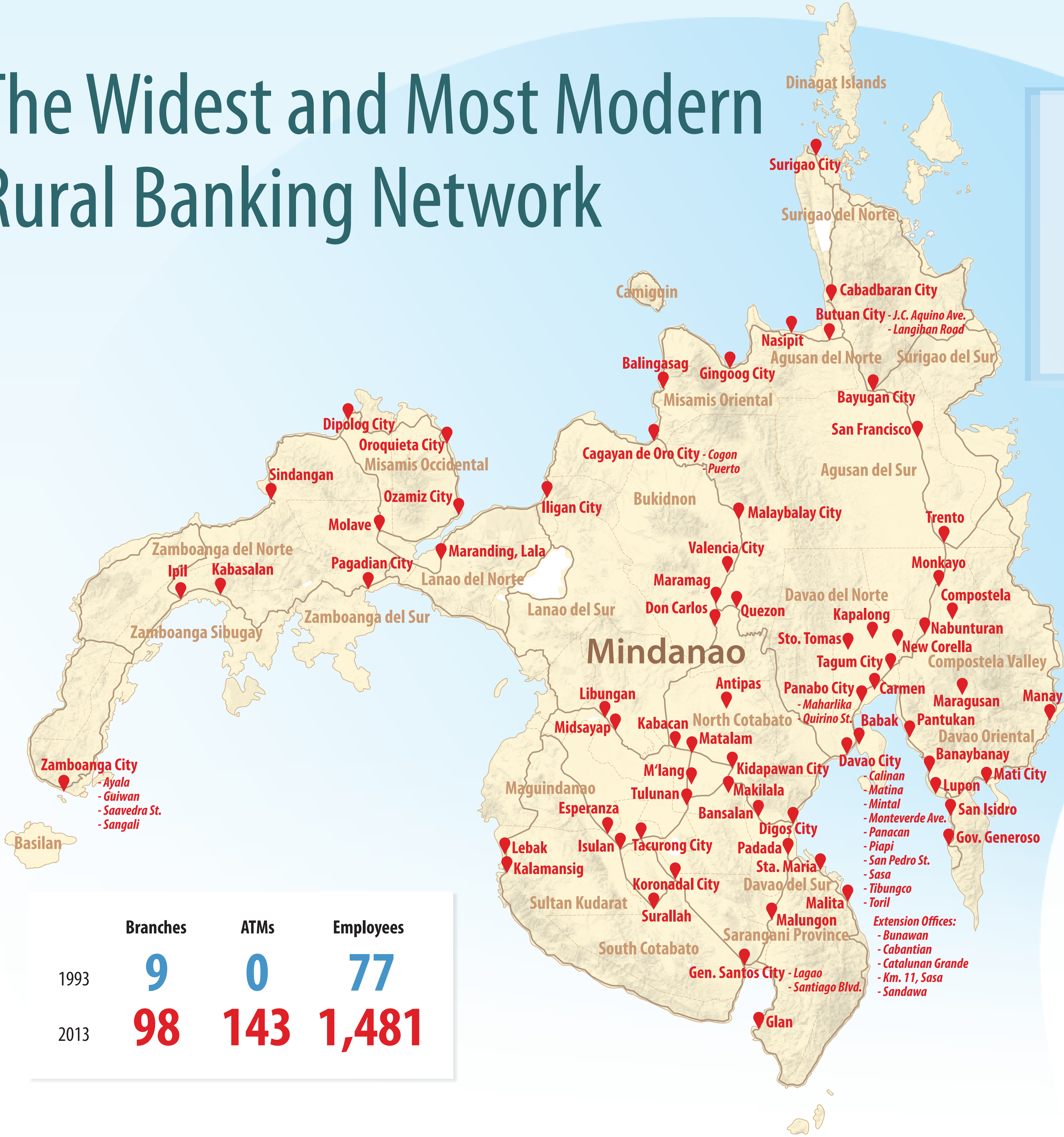
make banking experience enjoyable for our fast-growing client base in the countryside. Clients of ONB branches in Tagum City, Quirino in Panabo City, and San Pedro in Davao City will also be enjoying these expanded facilities when renovations in these branches are completed in 2014.

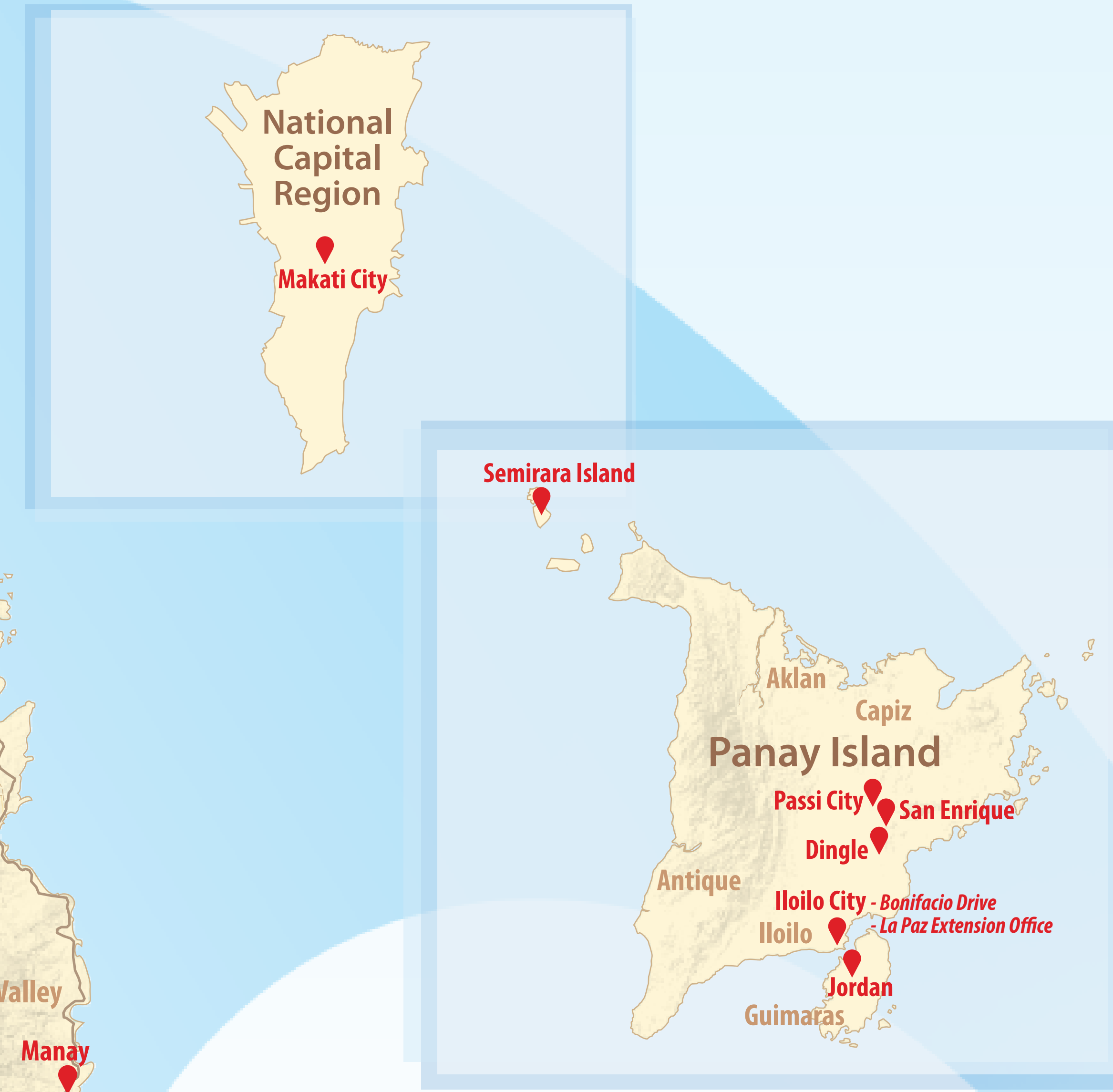
To cater to the emergent demands of communities it serves, ONB took the opportunity to convert the five micro banking offices (MBOs) deployed in 2012 into extension offices. These extension offices now operating in the rapidly developing barangays of Sasa, Cabantian, Catalunan Grande, Sandawa and Bunawan in Davao City and Semirara Island in Caluya, Antique are able to deliver full banking services such as deposits, withdrawals, fund transfers, loans, bills payment, remittances, PHIC and SSS contributions and ONB's Internet banking facility called Business Online Banking.

Additional PeraAgad ATMs were set up in branches in Mintal and Calinan – barangays with considerable commercial activities but are in the fringes of Davao City - to augment round the clock servicing of payroll withdrawals in these areas. The deployment of ten more ATMs in Iloilo City, General Santos City, Butuan and Trento, Agusan del Sur in 2013 and the migration to the BancNet Consortium allowing access for ONB cardholders to nearly 9,000 BancNet ATMs rounds off the growth of ONB's footprint and its increasing sphere of influence in the economic life of the country. To date, ONB PeraAgad ATMs make up 43% of the combined number of ATMs operated by rural banks.

ONB approaches 2014 with a positive outlook as it capitalizes on its advantage as a strong and reliable rural bank that is able to cater to the needs of underserved and unserved areas with a flexible and expanding range of banking platforms and solutions. The bank looks forward to modernizing more of its branch buildings all while rolling up its sleeves to establish 15 more branches in non-restricted areas in the next two years as a merger incentive granted by the Monetary Board of the Bangko Sentral ng Pilipinas. The year will bring the bank closer to its 100th branch, and to its goal of fortifying the bank's intent to serve areas in the Visayas by activating three more branches in Iloilo, namely in Barotac Nuevo, Pototan and Estancia, a branch in San Jose de Buenavista in Antique, and a second branch in Mati, Davao Oriental. ONB clients across the country will continue to benefit from the long-term investments that the Bank has been making – a 20-year tradition that dates back to its first consolidation in 1993.

The Widest and Most Modern Rural Banking Network





	Branches	ATMs	Employees
1993	9	0	77
2013	98	143	1,481

ONB

ONE NETWORK BANK

A Rural Bank

www.onenetworkbank.com.ph

Enhancing Stockholders' and Employees' Welfare

It was nine years ago since it was collectively decided by the three banks that consolidated into One Network Bank to plow back all of the bank's earnings by declaring stock dividends only instead of cash to ensure maximum capital buildup. Institutionalizing this policy in the years thereafter created a solid platform for growth which has led to ONB's capital base rising on a sustainable rate since 2004 to P3.7 billion by end 2013. It allowed ONB to post extraordinary growth metrics – including expansion beyond Mindanao and investment in modern products and services - that further improved shareholders value and client confidence.

During its annual stockholders meeting held on May 18, 2013, One Network Bank, Inc. (A Rural Bank) declared and paid 19.4% stock dividends of P357 million – the highest stock dividend the bank has declared so far - equivalent to 36 million common shares in favor of its 1,600 shareholders. The figure is 130% higher than the P155 million stock dividends declared and paid to the bank's stockholders in the same period in 2012. The stock dividend declaration duly approved by the Bangko Sentral ng Pilipinas represents 64% of ONB's 2012 net income of P556 million. As such, ONB remains true to its mission of providing its owners with rates of return on investment that rank among the highest in the industry. By the end of 2013, the bank maintained key financial ratios at high levels with a return on equity of 22%, return on average private equity of 36.71%, and a 3.25% return on average assets.

ONB also thrives in evolving a corporate culture that is powered by the bank's most valuable asset – a workforce that is productive, satisfied and dedicated. From having only 77 employees in its operations as Network Rural Bank in 1993, ONB continued to attract and nurture the best people in areas where it operates such that by end December 2013, it is already powered by almost 1500 employees who altogether strive towards translating the company's vision into reality. They are the driving force behind the bank's achievements over the years.

To further enrich the skills and abilities of its human capital, ONB through the Human Resources Management and Development Department continued to champion initiatives and programs on skills management and development and enhancement of employee well-being.

Competency of managers, tellers, accounting specialists, loan specialists and credit analysts in responding to the banking needs of clients were enhanced by facilitating training programs and seminars that amounted to P19.5 million, a 30% increase from investment on training programs in the previous year. To supplement its strength in operations, the bank sent employees to seminars on anti-money laundering, bank fraud, business continuity as well as problem solving and decision making and sent 49 officers and employees to attend external training programs in IT Audit, Risk Management, Marketing Research and Information Security.

In promoting personnel confidence and loyalty, the HRMD Department also facilitated promotion of 51 deserving employees and conferment of loyalty awards to 73 employees. A total of 324 managers all over the organization were rewarded with a company-paid travel and tour in their preferred Asian country of destination, an incentive for hitting a bank-wide milestone income of P500 million.

Health and wellness among all of the bank's employees was ensured through a P9 million investment on a dependable in-house health care program, monthly conduct of sports activity and yearly physical check-up every year since 2004. The bank continues to nurture spiritual growth of its people through scheduled annual retreats. It also upholds the following core values: *Maka-Diyos, Makamasa, Marunong Mag-ipon, Mapagkakatiwalaan, Masigasig, Malusog, Maayos, Mapagmalasakit, Maka-bayanihan* and *Maligaya*.

Because of its efforts to sustain an empowered workforce that is able to translate the company's vision into reality, ONB takes pride in having a harmonized corporate principle and employee culture, complementing the robust capital growth and increasing revenues over the years.

Annual Employees Assembly

Placing a premium on events that promote relevant bonding among employees including those serving outside Mindanao, ONB invested around P5 million in organizing its Annual Employees Assembly at the SMX Convention Center in Davao City. Prior to the program, a thanksgiving mass was celebrated by Archbishop Romulo G. Valles of the Metropolitan Archdiocese of Davao who, in his homily, expressed his delight at the ONB community for commencing its Annual Employees Assembly 2013 with prayers. The Western themed event served as backdrop for awarding branches that have hit quarterly targets, gained deposit incentives and achieved above average audit proficiency rating. A total of 73 Plaques of Loyalty were also conferred to employees that have celebrated the culmination of their 15th and 20th year of committed service to the bank. Retirees were also given recognition during the program. **Parokya ni Edgar**, one of the country's most popular bands, provided the highlight of the evening's entertainment.

Asian Travel

After exceeding the bank's milestone net income after tax of P500 million pesos in 2012, ONB rewarded its corps of officers and directors with an opportunity to visit their country of preference within Asia. With the aid of three travel agencies, excursions transpired from September to October 2013, enabling 17 batches composed of 324 qualified employees to visit selected tourist destinations in Hong Kong, Macau, Singapore, Japan, Beijing and Shanghai in China and Siem Reap in Cambodia. A total support of P11.9 million, or P35 thousand per employee qualified to avail of the incentive, was extended by the bank to ensure that its people will enjoy in their respective travels. Previous incentives given were in May 2007 whereby ONB brought its officers to Bangkok, Thailand after hitting a milestone NIAT of P180 million and in year 2000, to Hong Kong after hitting a milestone NIAT of P80 million.

BOMDP

ONB continues to reinforce its initiatives in professional development through the Branch Operations Management and Development Program, an intensive and full time training regimen that aims to develop competent and proficient Branch Operations Officers (BOOs). Within a span of six months, BOMDP enhances the skills of qualified personnel in cash, loans, accounting and other matters essential to efficient branch operations.

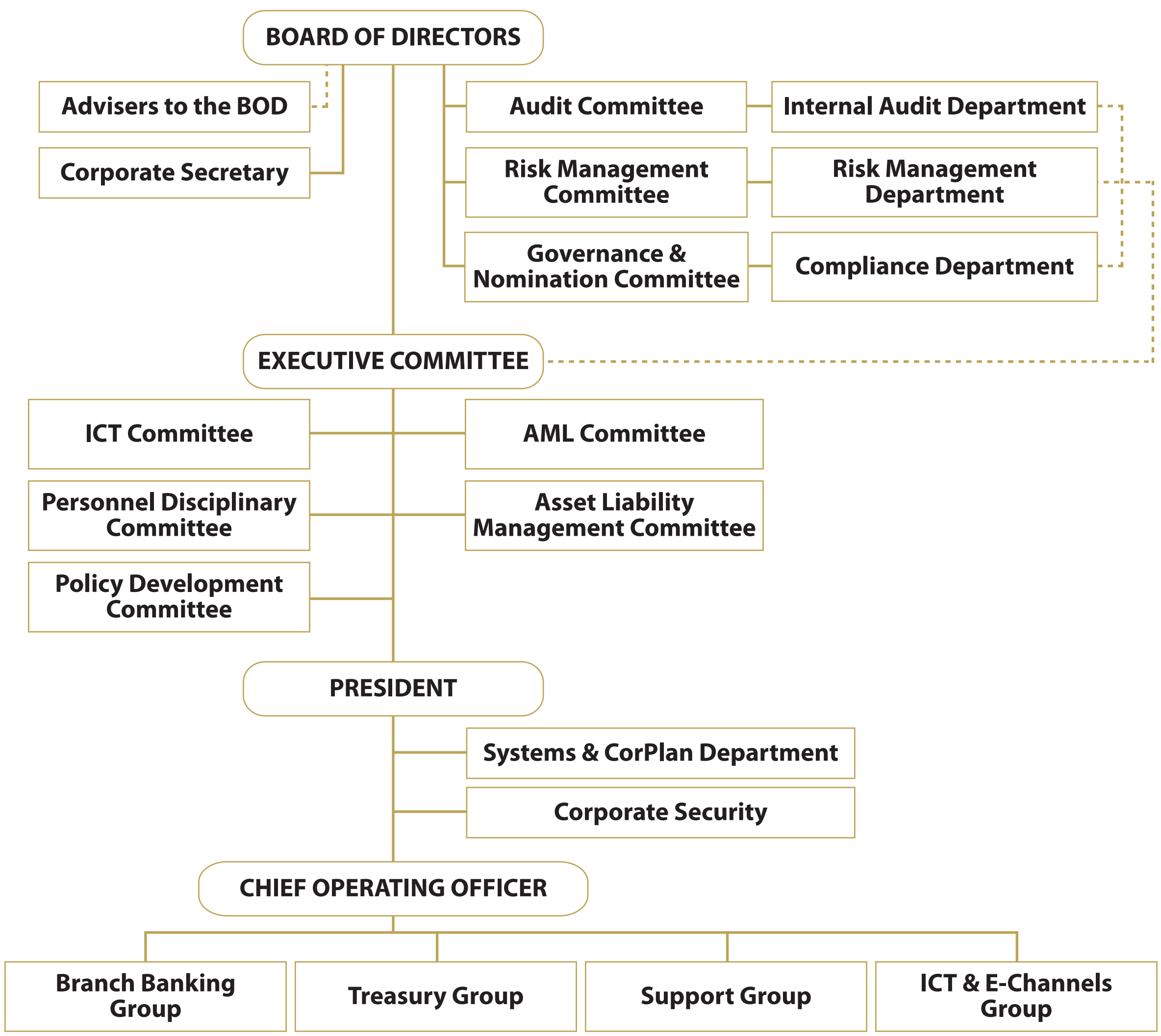
The program reiterates essential corporate principles through courses that help develop technical, supervisory and professional skills, therefore sustaining the bank's commitment to deliver a dependable customer service in the countryside. To date, ONB has already produced 8 BOMDP batches since the launch of the program. The BOMDP is the core platform which has allowed ONB to grow as fast as it has done since this has provided the Bank with an internally generated talent pool that has given ONB the luxury of growing its banking network without relying on hiring from outside. In 2013, the bank's 8th BOMDP produced 22 new BOOs.

Strong Corporate Governance

Parallel to its growth trajectory, ONB established a path towards stronger corporate governance practices designed to align ONB's processes with global standards in the field as well as to make these compliant with the prescriptions of regulatory agencies. With successive corporate consolidations in 1993 and 2004, it became imperative for ONB to establish rules and procedures which promote transparency and accountability in recognition of its increased stakeholder base.

ONB protects the interest of its valued stockholders and stakeholders by championing the adoption and constant enhancement of sound practices in corporate governance. The bank's organization is structured such that corporate values, strategic guidance, accountability, compliance and transparency emanate from the Board of Directors (BOD) and Senior Management and pervade all throughout the organization.

ONB Table of Organization



The Board of Directors

Primarily responsible for creating and delivering value for the company and the stockholders, the BOD ensures that the Bank's objectives, strategies, policies and procedures are espoused in all its undertakings. The BOD promotes values of honesty and integrity throughout the Bank and views compliance with applicable laws, rules and standards as an essential means to this end. The Board makes certain that good governance principles are carried out through sufficient mechanisms and that compliance with regulations are observed.

The Bank's governance framework originates from its BOD which is composed of members with competencies and experience in the disciplines of finance, natural resource development and management, agri-business and the legal profession. Comprising the BOD are President Alex V. Buenaventura, Chairman Victor A. Consunji, Vice-Chairman Antonio P. Avelino, Directors Luz Consuelo A. Consunji and Antonio R. Cabreira, Jr. and Independent Directors Evelyn T. Ang and Rev. Fr. Agustin L. Nazareno. The Board convenes every month in addition to special meetings when necessary and are elected annually by the stockholders.

The Independent Directors provide good support to the Board by exercising their best independent judgement on issues and challenges the Bank faces. Further, the Independent Directors undertake an annual personal review on the degree of the Bank's compliance to identified corporate governance mechanisms by way of accomplishing the Corporate Governance Scorecard. This ensures that objectivity of the Independent Directors is maintained. Conversely, the rest of the members of the Board take on an assessment tool to measure their level of compliance with Corporate Governance rules and regulations mandated by regulators as part of its initiatives taken towards achieving high standards of performance.

Further, in compliance to BSP Circular 749 which aligns existing regulations with international best practices of promoting good governance, the members of the BOD, excluding the Executive Committee who manage the day-to-day operations of the Bank, also meet with the external auditor and heads of the internal audit, compliance and risk management departments in order for the non-executive members of the Board to be provided with independent assessments of how the various control functions in the Bank are carried out

The Bank's Independent Directors and Director Antonio R. Cabreira Jr. attended a two-day basic course on Corporate Governance for Rural Banking Directors conducted by the Rural Bankers Association of the Philippines to understand the significance of good governance in maintaining the strength and stability of the Bank and to remind them of the value of their roles in promoting good governance.

To help the Bank prepare for the shift of the Philippine banking system to Basel III capital framework, guidelines of which are pegged above international standards, the BOD Vice Chairman Antonio P. Avelino completed a week long online seminar on an Introduction to Basel III. The seminar's purpose was to strengthen the global capital framework and introduce a global liquidity standard to improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus reducing the risk of spill over in the financial sector to the real economy.

All of the Bank's Board of Directors attended the one-day refresher course on the amendments to the Anti-Money Laundering Act of 2001 brought about by Republic Act 10365 conducted by the BSP Anti Money Laundering Specialist Group (AMLSG), in order to update the Board's knowledge on BSP Circular No. 706, the underlying principles based on improved risk management, corporate governance and financial inclusion, the salient features of the amendments and the AML risk rating system.

The Executive Committee, Corporate Governance and Nominations Committee, Risk Oversight Committee and Audit Committee are the four board-level committees assisting the Board in exercising its authority by providing organized means for directors to achieve goals and address issues relevant to corporate governance.

The Corporate Governance and Nominations Committee

The bank's Corporate Governance Committee became the Corporate Governance and Nominations Committee in the year 2013, adding to its role the nomination function which aims to adhere to the best practices in good and quality governance. Independent Director Rev. Fr. Agustin L. Nazareno was nominated as the chairman of the committee, with Evelyn T. Ang and Antonio P. Avelino as members.

Included in the committee's nomination function is the review and evaluation of the individual qualifications of all key officers and its position or office nominated to the board of the bank. Further, their governance function primarily focused on achieving the bank's vision and mission with fairness, accountability and transparency.

This is reflected in the creation of appropriate policies and procedure that identify potential conflict of interest, succession planning and creating a strong compliance system commensurate to the size and complexity of the bank. The bank abides by a board-approved Corporate Governance and Nominations Committee charter that is annually reviewed and updated to align existing policies and procedures with the decrees of regulatory bodies, including those related to the anti-money laundering act.

The Executive Committee

The Executive Committee (ExCom) of the bank is a core group of individuals given authority by the Board of Directors to oversee on its behalf the management of bank operations and delivery of excellent service. The Committee is primarily responsible for ensuring that the mandates and resolutions of the Board of Directors and of the Monetary Board of the Bangko Sentral ng Pilipinas as well as all policies and regulations necessary for the conduct of bank operations are carried into effect.

The ExCom, chaired by the President and Chief Executive Officer Alex V. Buenaventura with Vice Chairman Antonio P. Avelino and Director Antonio R. Cabreira, Jr. as members, meets at least twice a week and apprises the BOD with accurate and timely information during the monthly BOD meetings. The meetings cover credit policy, loan approvals and updates and policy moves pertaining to branch operations, treasury, information technology and e-channels, human resource development, and other support services.

The ExCom is further supported by ExCom-Level committees, namely: Policy Development Committee, ICT Committee, AMLA Committee, Asset Liability Management Committee (ALCO) and the Personnel Disciplinary Committee.

Keen on further enhancing his skills, knowledge and perspective to keep up with a fast globalizing region while driving change and innovation in the Bank, the President and CEO joined the Advanced Management Program crafted by the Southeast Asia Business Studies of the University of Asia and the Pacific to deliver world class management education for business executives from the Philippines and in abroad.

The Risk Oversight Committee

The Risk Oversight Committee is an extension of the Board of Directors providing oversight of risks relevant to credit, market, liquidity, operations, legal and others taken by the Bank. In 2013, the Board has appointed Independent Director Rev. Fr. Agustin L. Nazareno as chairman of the Risk Oversight Committee, with Antonio R. Cabreira, Jr. and Antonio P. Avelino as members. The heads of risk taking units such as the Treasury Group, Branch Banking Group, Support Group, ICT & E-channels Group, Internal Audit Department and Compliance Department function as resource persons who provide information during committee meetings. The committee also invites other Bank officers for urgent and important matters to be discussed and presented during the meeting.

ONB continues to develop and enhance its risk management policies. The Risk Management Department (RMD) ensures implementation of the bank's risk management framework through pro-active participation in the development of new ventures and system enhancements. In addition to the regular conduct of risk assessment and consistent development, monitoring and reporting of action plans, RMD was able to conduct bank-wide Business Impact Analysis (BIA) in 2013 to identify business units and processes that are essential to the bank, how these units and processes can quickly return to its full operation after a disaster situation, and the resources required for resuming business operations. Core Deposit Computation was developed as well in order to determine the level of the bank's stable source of funds for the lending base. To gauge the bank's health, liquidity stress testing was run and potential liquidity outflow exposures of the bank under stress scenarios were continuously assessed.

The Bank updated its Business Continuity Plan (BCP) Manual for branches in 2013 with the aim of reducing the effects of disruption of services, systems and business processes caused by service interruptions, failures, and other external events and adding more procedures for the delayed opening of branches and manual operations.

All branches underwent annual BCP orientation and testing in order to improve knowledge and ability in performing BCP procedures whenever necessary. The year also saw continuous conduct of Information Security Awareness by the Technology Risk and Information Security Section for all employees to have basic knowledge on information security risks and ways to mitigate these risks in order to protect the operations of the bank.

The Audit Committee

The Audit Committee functions to assist the BOD in fulfilling its statutory and fiduciary responsibilities, enhancing shareholder value, and protecting shareholders' interest. It carries out its duties in effective oversight of internal and external audit functions, transparency and proper reporting, compliance with laws, rules and regulations and code of conduct, and adequate and effective internal controls. The Bank's Audit Committee is chaired by Evelyn T. Ang with Luz Consuelo A. Consunji and Rev. Fr. Agustin L. Nazareno as members.

In 2013, the Bank's Internal Audit Department (IAD) started its preparations for external quality assessment to be conducted in 2015 by creating the Audit Quality Assurance Unit which will be responsible for the overall design, administration and assessment of Quality Assurance and Improvement Program (QAIP) of IAD. To guarantee that the personnel who will administer the QAIP program has sufficient knowledge of internal audit practices, selected IAD employees were given accreditation in Quality Assessment as Internal assessors/Validators after undergoing training on International Professional Practices Framework and successfully passing the examination established by the IIA.

The IAD established its Quality Assurance Manual to guide its conduct of internal quality assessment and to maintain quality in the conduct of assurance and consulting activities. Adoption of QAIP Manual ensures that IAD conforms to the definition of internal auditing, Code of Ethics and Standards, including timely corrective actions to remedy any significant instances of nonconformance, by conducting on-going and periodic internal assessments and Internal Self-Assessment with Independent Validation (SAIV) that adopt best practices and have effective continuous improvement activities, thereby adding value and enhancing the bank's operations.

In 2013, in line with the bank's adherence to risk-based approach in assessing business risks, a new Audit Rating System for IT units was also developed that allows for determining test results and measuring objectives based on relationship with risks and controls. An Audit Client Feedback Form was also implemented to help IAD assess its effectiveness and potential opportunities for improvements through feedback obtained from audit clients.

Compliance System

To ensure that the BOD's initiatives are carried out, a Chief Compliance Officer (CCO) was appointed in 2011 to oversee and supervise effective management of the Bank's compliance risk. The CCO is the lead operating officer that is tasked to implement the Compliance System towards strengthening the culture of compliance in the Bank. The senior management, through the CCO, is also responsible with interacting with the Bangko Sentral ng Pilipinas (BSP) on compliance-related issues, including quality of documentary and supervisory reports and timely submission to the BSP. Given the importance of the compliance function, the CCO directly reports to the BOD periodically.

Supporting the CCO in ensuring that compliance policies are properly implemented by concerned personnel is the Compliance Department (CoD). CoD is composed of the Head Office Unit, Branch Review Unit and AMLA Unit, with each unit specializing in different areas of compliance. The Head Office and Branch units ensure compliance to rules and regulations imposed by the BSP, PDIC, SEC and BIR and monitors how these are applied. AMLA Unit focuses in executing laws related to Anti-Money Laundering. The Bank's Money Laundering and Terrorist Financing Prevention Program (MLPP) includes procedures on Know Your Customers (KYC), Due Diligence, Accounts Monitoring, and Reporting of Covered and Suspicious Transactions. Refresher courses for AMLA rules and regulations were administered in 2013 to ensure that employees are aware and well updated regarding the matter.

To address strict regulatory guidelines and to convey the bank's full support in curbing money laundering and terrorist financing activities, ONB invested heavily on a more effective AML Solution, a web-based technology solution that will facilitate an enterprise-wide approach of analyzing both the client profile and all of the transactions that are undertaken by them, helping the banks prevent money-laundering schemes in as much more effective and efficient manner. The bank's investment of P12 million in this technology manifests ONB's commitment to promote high ethical and professional standards in the prevention of money laundering and terrorist financing activities.

Under the revised Compliance Framework of Bangko Sentral ng Pilipinas (BSP), the Bank adopted one of the banking industry's best practices – the appointment of Compliance Coordinators. Compliance Coordinators function to closely coordinate compliance matters with the Bank's business units, further ensuring that compliance function is effectively and uniformly implemented across the Bank. Among the responsibilities of a Compliance Coordinator is to monitor adherence to regulations and requirement on Anti-Money Laundering Act (AMLA). They are also tasked to perform periodic testing and submit results thereof to the CCO.

In short, the Compliance System of the Bank promotes the consistent and enthusiastic observance of the culture of compliance by each one of its personnel, each contributing a piece in the holistic approach to supervision and total banking compliance.

Board of Directors

Rev. Fr. Agustin L. Nazareno
(Independent Director)

Antonio R. Cabreira, Jr.
(Director)

Evelyn T. Ang
(Independent Director)

Luz Consuelo A. Consunji
(Director)

Atty. Bambeth Mahal J. Diez
(Corporate Secretary)

Victor A. Consunji
(Chairman)

Alex V. Buenaventura
(President)

Antonio P. Avelino
(Vice-Chairman)

Executive Committee

Alex V. Buenaventura (R)
Chairman

Antonio P. Avelino (L)

Antonio R. Cabreira, Jr. (C)

Risk Oversight Committee

Rev. Fr. Agustin L. Nazareno (C)
Chairman

Antonio P. Avelino (L)

Antonio R. Cabreira, Jr. (R)

Audit Committee

Evelyn T. Ang (R)
Chairman

Luz Consuelo A. Consunji (C)

Rev. Fr. Agustin L. Nazareno (L)

Corporate Governance and Nominations Committee

Rev. Fr. Agustin L. Nazareno (R)
Chairman

Evelyn T. Ang (C)

Antonio P. Avelino (L)

Council of Advisers

(LEFT TO RIGHT)

Rev. Fr. Jessie S. Esparagoza
Edgardo S. Lagman
Jose V. Buenaventura
Dr. Edgardo V. Buenaventura

Group Heads

(LEFT TO RIGHT)

Romulo C. Guerrero
Support Group

Minda A. Lim
Treasury Group

Ronnie B. Hombre
ICT & E-Channels Group

Nelson L. Billena
Branch Banking Group

Statement of Management's Responsibility for Financial Statements

The management of One Network Bank, Inc. (a Rural Bank), is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2013 and 2012 in accordance with Philippine Financial Reporting Standards, including the following additional supplementary information which is filed separately from the basic financial statements:

a. Supplementary schedule required under Annex 68-E of the Securities Regulation Code
b. Reconciliation of retained earnings available for dividend declaration
c. Map showing the relationship between and among related entities
d. Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2013
e. Schedule showing financial soundness indicators
f. Schedule showing other ratios required for financing companies

Management's 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 the additional supplementary information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders for the period December 31, 2013 and 2012, has examined the financial statements of the Bank in accordance with Philippine Standards on Auditing and, and in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

VICTOR A. CONSUNJI Chairman of the Board	ALEX V. BUENAVENTURA President	ANTONIO R. CABREIRA, JR. Treasurer

Report of Independent Auditors

The Board of Directors and the Stockholders
One Network Bank, Inc. (a Rural Bank)
Km. 9, Sasa, Davao City

Report on the Financial Statements

We have audited the accompanying financial statements of One Network Bank, Inc. (a Rural Bank), which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2013 required by the Bureau of Internal Revenue as disclosed in Note 29 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia, III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 4225011, January 2, 2014, Makati City

SEC Group A Accreditation
Partner – No. 0628-AR-2 (until Sept. 5, 2016)
Firm – No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-22-2013 (until Nov. 7, 2016)
Firm's BOA /PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 8, 2014

ONE NETWORK BANK, INC. (A RURAL BANK)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012
(With Corresponding Figures as of January 1, 2012)
(Amounts in Philippine Pesos)

	NOTES*	2013	Dec. 31, 2012 (As restated - See Note 3)	Jan. 1, 2012 (As restated - See Note 3)
RESOURCES				
CASH AND OTHER CASH ITEMS	7	**P 1,251,437,159**	P 904,551,125	P 777,741,589
DUE FROM BANGKO SENTRAL NG PILIPINAS	7, 8	**516,725,972**	369,107,846	138,944,010
DUE FROM OTHER BANKS	7, 9	**1,934,725,628**	980,403,058	1,300,943,429
AVAILABLE-FOR-SALE FINANCIAL ASSETS	10	**1,588,089,309**	1,519,915,019	1,795,836,741
HELD-TO-MATURITY INVESTMENTS	11	**141,104,966**	323,077	25,657,420
LOANS AND RECEIVABLES - Net	12	**18,703,129,263**	14,955,134,143	10,407,034,215
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	13	**1,303,330,173**	1,132,395,859	877,466,607
INVESTMENT PROPERTIES - Net	14	**25,934,166**	19,572,625	15,128,743
DEFERRED TAX ASSETS - Net	24	**105,131,088**	115,086,275	148,736,800
PREPAYMENTS AND OTHER RESOURCES - Net	15	**183,525,079**	140,798,609	142,072,478
TOTAL RESOURCES		**P 25,753,132,803**	P 20,137,287,636	P 15,629,562,032
LIABILITIES AND EQUITY				
DEPOSIT LIABILITIES	17	**P 17,999,593,630**	P 14,108,243,071	P 10,507,947,903
BILLS PAYABLE	18	**3,539,465,158**	2,601,880,000	2,175,000,000
ACCRUED EXPENSES AND OTHER LIABILITIES	19	**422,339,012**	351,663,197	375,141,849
INCOME TAX PAYABLE		**86,648,307**	5,078,967	71,702,179
Total Liabilities		**22,048,046,107**	17,066,865,235	13,129,791,931
EQUITY	20	**3,705,086,696**	3,070,422,401	2,499,770,101
TOTAL LIABILITIES AND EQUITY		**P 25,753,132,803**	P 20,137,287,636	P 15,629,562,032

ONE NETWORK BANK, INC. (A RURAL BANK)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts in Philippine Pesos)

	NOTES*	CAPITAL STOCK	OTHER RESERVES	REVALUATION RESERVES	SURPLUS	TOTAL
Balance at January 1, 2013						
As previously reported		**P 1,837,478,600**	**P 293,115,955**	**P 171,894,993**	**P 737,198,631**	**P 3,039,688,179**
Effect of adoption of PAS 19 (Revised)	3	**-**	**-**	**34,793,379**	**(4,059,157)**	**30,734,222**
As restated		**1,837,478,600**	**293,115,955**	**206,688,372**	**733,139,474**	**3,070,422,401**
Issuance of shares during the year	2, 20	**17,025,370**	**-**	**-**	**-**	**17,025,370**
Stock dividends	20	**357,000,000**	**-**	**-**	**(357,000,000)**	**-**
Cash dividends	20	**-**	**-**	**-**	**(4,114)**	**(4,114)**
Total comprehensive income (loss) for the year		**-**	**-**	**(91,830,146)**	**709,473,185**	**617,643,039**
Balance at December 31, 2013	20	**P 2,211,503,970**	**P 293,115,955**	**P 114,858,226**	**P 1,085,608,545**	**P 3,705,086,696**
Balance at January 1, 2012						
As previously reported		P 1,451,624,210	P 677,658,536	P 156,290,840	P 181,174,696	P 2,466,748,282
Effect of adoption of PAS 19 (Revised)	3	-	-	49,358,123	(16,336,304)	33,021,819
As restated		1,451,624,210	677,658,536	205,648,963	164,838,392	2,499,770,101
Issuance of shares during the year		854,390	465,643	-	-	1,320,033
Stock dividends	20	385,000,000	(385,000,000)	-	-	-
Cash dividends	20	-	(8,224)	-	-	(8,224)
Total comprehensive income for the year		-	-	1,039,410	568,301,081	569,340,491
Balance at December 31, 2012	20	P 1,837,478,600	P 293,115,955	P 206,688,373	P 733,139,473	P 3,070,422,401

**See Notes to Financial Statements*

ONE NETWORK BANK, INC. (A RURAL BANK)
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts in Philippine Pesos)

	NOTES*	2013	2012 (As Restated - see Note 3)
INTEREST INCOME ON			
Loans and receivables	12	P 1,708,057,659	P 1,475,969,65
Investments	10, 11	91,249,053	94,023,725
Deposits with other banks	8, 9	35,062,732	43,432,108
Post-employment defined benefit plan - net	23	2,249,474	2,871,550
		1,836,618,918	1,616,297,036
INTEREST EXPENSE ON			
Deposit liabilities	17	347,784,315	316,505,267
Bills payable	18	98,172,211	64,114,268
		445,956,526	380,619,535
NET INTEREST INCOME		1,390,662,392	1,235,677,501
IMPAIRMENT LOSSES	16	7,183,843	133,330,891
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		1,383,478,549	1,102,346,610
OTHER INCOME			
Service charges, fees and commissions		957,150,767	826,908,422
Others	22	53,282,210	73,316,708
		1,010,432,977	900,225,130
OTHER EXPENSES			
Compensation and employee benefits	21, 23	453,838,112	372,650,844
Occupancy and equipment related expenses	13, 21, 28	276,086,853	227,542,481
Taxes and licenses	29	218,046,015	207,467,287
Transportation and travel		98,887,001	76,421,844
Security, messengerial and janitorial services		85,148,837	73,604,082
Stationery and supplies		52,812,284	51,932,712
Service charges		45,570,986	44,955,929
Communications, telephone and telegraph		40,718,273	34,554,297
Insurance		32,657,149	25,217,609
Fuel and lubricants		31,010,484	31,070,567
Professional fees		6,189,397	11,288,691
Banking fees		5,649,139	5,285,792
Advertising and publicities		4,522,652	5,445,629
Others		44,103,630	42,085,100
		1,395,240,812	1,209,522,864
PROFIT BEFORE TAX		998,670,714	793,048,876
TAX EXPENSE	24	289,197,529	224,747,795
NET PROFIT	25	P 709,473,185	P 568,301,081
Basic and Diluted Earnings Per Share	25	P 3.22	2.59

ONE NETWORK BANK, INC. (A RURAL BANK)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts in Philippine Pesos)

	NOTES*	2013	2012 (As Restated - see Note 3)
NET PROFIT		P 709,473,185	P 568,301,081
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified to profit or loss:			
Remeasurements on post-employment defined benefit plan	23	(121,794,317)	(20,806,776)
Tax income	24	36,538,295	6,242,033
		(85,256,022)	(14,564,743)
Item that will be reclassified to profit or loss:			
Fair value gain (loss) on available-for-sale financial asssets	10	(6,574,124)	15,604,153
Other comprehensive income (loss) - net of tax		(91,830,146)	1,039,410
TOTAL COMPREHENSIVE INCOME		P 617,643,039	P 569,340,491

**See Notes to Financial Statements*

ONE NETWORK BANK, INC. (A RURAL BANK)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts in Philippine Pesos)

	NOTES*	2013	2012 (As Restated - see Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**P 998,670,714**	P 793,048,876
Adjustments for:			
Depreciation and amortization	13, 14	**108,538,928**	99,147,960
Realized gain on sale of available-for-sale financial assets	10, 22	**(38,624,547)**	(61,972,476)
Impairment losses	16	**7,183,843**	133,330,891
Income from disposal of bank premises, furniture, fixtures and equipment	22	**(1,925,132)**	(355,062)
Income from disposal of investment properties	14, 22	**(264,392)**	(1,882,321)
Operating profit before changes in resources and liabilities		**1,073,579,414**	961,317,868
Increase in loans and receivables		**(3,756,879,744)**	(5,352,563,011)
Decrease (increase) in prepayments and other resources		**(65,828,139)**	1,273,869
Increase in deposit liabilities		**3,891,350,559**	4,252,434,271
Increase (decrease) in accrued expenses and other liabilities		**62,085,127**	(44,277,205)
Cash generated from (used in) operations		**1,204,307,217**	(181,814,208)
Cash paid for income taxes		**(234,211,297)**	(224,038,270)
Net Cash From (Used In) Operating Activities		**970,095,920**	(405,852,478)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of available-for-sale financial assets	10	**(606,231,258)**	(1,108,924,869)
Proceeds from disposal of available-for-sale financial assets		**570,107,391**	1,462,423,220
Acquisitions of bank premises, furniture, fixtures and equipment	13	**(291,738,433)**	(370,466,077)
Acquisitions of held-to-maturity investments		**(140,781,889)**	-
Proceeds from disposal of bank premises, furniture, fixtures and equipment		**9,462,155**	2,147,085
Proceeds from disposal of investment properties	14	**331,800**	4,900,000
Proceeds from maturity of held-to-maturity investments		**-**	25,334,344
Net Cash From (Used in) Investing Activities		**(458,850,234)**	15,413,703
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of bills payable		**937,585,158**	426,880,000
Cash dividends paid		**(4,114)**	(8,224)
Net Cash From Financing Activities		**937,581,044**	426,871,776
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,448,826,730**	36,433,001
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**904,551,125**	777,741,589
Due from Bangko Sentral ng Pilipinas		**369,107,846**	138,944,010
Due from other banks		**980,403,058**	1,300,943,429
		2,254,062,029	2,217,629,028
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	7	**1,251,437,159**	904,551,125
Due from Bangko Sentral ng Pilipinas	8	**516,725,972**	369,107,846
Due from other banks	9	**1,934,725,628**	980,403,058
		P 3,702,888,759	P 2,254,062,029

Supplemental Information on Non-Cash Financing Activity

In 2013, the Bank issued shares of stocks amounting to P17,025,370 in exchange for the net assets of Rural Bank of San Enrique (Iloilo), Inc. upon execution of merger (see Note 2). Total net assets absorbed by the Bank amounted to P3,011,437, included as part of Cash and Other Cash Items, Due from Bangko Sentral ng Pilipinas, Due from Other Banks, Held-to-Maturity Investments, Loans and Receivables, Bank Premises, Furniture, Fixtures and Equipment, Deferred Tax Assets, Prepayments and Other Resources, Deposit Liabilities, Bills Payable, and Accrued Expenses and Other Liabilities. The difference of the consideration paid and the net assets absorbed resulted in a goodwill amounting to P14,013,933, booked by the Bank as part of Prepayments and Other Resources (see Note 15).

**See Notes to Financial Statements*

ONE NETWORK BANK, INC. (A RURAL BANK)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

One Network Bank, Inc. (a Rural Bank) (the Bank) was incorporated in the Philippines to engage and carry on the business of a rural bank as provided in the Rural Banks Act of 1992. It was registered with the Securities and Exchange Commission (SEC) on July 14, 2011 and started its commercial operations on September 1, 2011. The Bank was organized as a result of the consolidation of the two rural banks, namely, One Network Rural Bank, Inc. (ONRBI) and Rural Bank of New Corella (Davao del Norte), Inc. (RBNCI). Consequently, the Bank acquired all the assets and liabilities of ONRBI and RBNCI in exchange for the Bank's shares of stocks. The consolidation of ONRBI and RBNCI to form a new bank, which is a re-organization of entities under common control, has been accounted for using the uniting of interests or pooling-of-interest method. Under this method, similar accounts of the entities were combined on a line-by-line basis except for the equity accounts which were offset with the new shares issued by the new entity in which the difference between the net assets received and the amount of the shares issued is accounted for as Other Reserves (see Note 20.2).

On April 18, 2012, a plan of merger was made and entered into by the Bank with Rural Bank of San Enrique (Iloilo), Inc. (RBSEI) doing business under the name and style of Banco San Enrique (a Rural Bank). On April 12, 2013, the SEC approved the merger of the Bank with RBSEI, with the former as the surviving entity (see Note 2).

The registered office of the Bank is located at Km. 9, Sasa, Davao City. The Bank operates and maintains 91 branches and 7 extension offices nationwide.

The financial statements of the Bank for the year ended December 31, 2013 (including the comparative financial statements for December 31, 2012 and the corresponding figures as at January 1, 2012) were authorized for issue by the Bank's President on April 8, 2014.

2. MERGER

Merger, a business combination whereby two or more corporations engage to transfer their properties to the surviving entity, is one of the effective schemes entered by the Bank for the purpose of meeting the paid-in capital requirement, increasing resources, capital base, and for a more effective business operation, as discussed in the plan of merger executed by the Bank and RBSEI on April 18, 2012. On April 12, 2013, the SEC approved the merger of the two banks. Subsequently, on May 16, 2013, the entire assets and liabilities of RBSEI were transferred to the Bank. In addition to the existing branches, five operating branch units of RBSEI were absorbed.

Such merger was accounted for using the acquisition method wherein on initial recognition, the assets and liabilities of RBSEI and the consideration paid for them are included in the financial statements at their fair values. Total assets and liabilities absorbed by the Bank as at May 16, 2013, the date when the Bank obtained control over RBSEI, amounted to P146.0 million and P143.0 million, respectively, included as part of Cash and Other Cash Items, Due from Bangko Sentral ng Pilipinas, Due from Other Banks, Held-to-Maturity Investments, Loans and Receivables, Bank Premises, Furniture, Fixtures and Equipment, Deferred Tax Assets, Prepayments and Other Resources, Deposit Liabilities, Bills Payable, and Accrued Expenses and Other Liabilities. The difference of the consideration paid totaling to P17.0 million, in the form of shares of stock of the Bank, and the net assets absorbed amounting to P3.0 million resulted to a goodwill amounting to P14.0 million, booked by the Bank as part of Prepayments and Other Resources (see Note 15).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to the periods presented, unless otherwise stated.

3.1 Basis of Preparation of Financial Statements

(a) *Statement of Compliance with Philippine Financial Reporting Standards* – The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) *Presentation of Financial Statements* – The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents statements of comprehensive income separate from the statements of profit or loss.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

The Bank's adoption of PAS 19 (Revised), *Employee Benefits*, resulted in material retrospective restatements on certain accounts in the comparative financial statements for December 31, 2012 and in the corresponding figures as of January 1, 2012 [see Note 3.2 (a)(ii)]. Accordingly, the Bank presents a third statement of financial position as of January 1, 2012, without the related notes, except for the disclosures required under PAS 8, *Accounting Polices, Changes in Accounting Estimates and Errors*.

(c) *Functional and Presentation Currency* – These financial statements are presented in Philippines pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

3.2 Adoption of New and Amended PFRS

(a) *Effective in 2013 that are Relevant to the Bank* – In 2013, the Bank adopted for the first time the following new PFRS, revisions and amendments thereto that are relevant to the Bank and effective for financial statements for the annual period beginning on or after July 1, 2012 or January 1, 2013:

PAS 1 (Amendment)	:	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
PAS 19 (Revised)	:	Employee Benefits
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
PFRS 13	:	Fair Value Measurement
Annual Improvements	:	Annual Improvements to PFRS (2009-2011 Cycle)

Discussed below are the relevant information about these new, revised and amended standards.

(i) PAS 1 (Amendment), *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss, and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The amendment has been applied retrospectively, hence, the presentation of other comprehensive income has been modified to reflect the changes. The Bank also opted to present two separate statements for the statement of profit or loss and statement of comprehensive income. Prior period comparatives have been restated as a consequence of this change in presentation.

(ii) PAS 19 (Revised), Employee Benefits (effective from January 1, 2013). This revised standard made a number of changes to the accounting for employee benefits. The most significant changes relate to defined benefit plans as follows:

- eliminates the corridor approach and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;
- changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit liability or asset; and,
- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The Bank has applied PAS 19 (Revised) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative financial statements as of December 31, 2012 and the corresponding figures as of January 1, 2012. The effect of the restatement on the affected resources, liability and equity components is shown below.

	December 31, 2012			January 1, 2012		
	As previously reported	Effects of Adoption of PAS 19 (Revised)	As Restated	As previously reported	Effects of Adoption of PAS 19 (Revised)	As Restated
Changes in resources and liabity						
Deferred tax assets - net	P 129,151,334	(P 14,065,059)	P 115,086,275	P 162,889,008	(P 14,152,208)	P 148,736,800
Prepayments and other resources	111,393,847	29,404,762	140,798,609	112,841,528	29,230,950	142,072,478
Accrued expenses and other liabilities	(367,057,716)	15,394,519	(351,663,197)	(393,084,926)	17,943,077	(375,141,849)
Net increase in equity		P 30,734,222			P 33,021,819	
Changes in components of equity:						
Revaluation reserves	P 171,894,993	P 34,793,379	206,688,372	P 156,290,840	P 49,358,123	P 205,648,963
Surplus	737,198,631	(4,059,157)	733,139,474	181,174,696	(16,336,304)	164,838,392
Net increase in equity		30,734,222			P 33,021,819	

The effects of the adoption of PAS 19 (Revised) on the statement of profit or loss and statement of comprehensive income for the year ended December 31, 2012 are shown below.

	As previously reported	Effects of Adoption of PAS 19 (Revised)	As Restated
Changes in profit or loss:			
Interest income on post-employment defined benefit plan – net	P -	(P 2,871,550)	(P 2,871,550)
Compensation and employee benefits	388,211,324	(15,560,480)	372,650,844
Tax expense	218,592,912	6,154,883	224,747,795
Net increase in net profit		P 12,277,147	
Changes in other comprehensive income:			
Remeasurements of retirement benefit obligation – net of tax	P -	(P 14,564,743)	(P 14,564,743)

After the restrospective restatement due to the effects of PAS 19 (Revised) and adjustment for stock dividends in 2013, the 2012 basic and diluted earnings per share (EPS) decreased from P3.22 per share to P2.59 per share (see Note 25).

The measures of the financial performance indicators of the Bank were also restated. The return on average equity, return on average assets and net interest margin in 2012 increased from 20.20%, 3.11% and 7.83% to 20.41%, 3.18% and 7.97%, respectively (see Note 26).

The adoption of PAS 19 (Revised) did not have a material impact on the Bank's statement of cash flows for the year ended December 31, 2012.

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's statement of financial position. The details and outstanding balances of financial assets and financial liabilities that are subject to offsetting, enforceable master netting agreements and similar arrangements are disclosed in Note 6.3.

(iv) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This new standard clarifies the definition of fair value and provides guidance and enhanced disclosures about fair value measurements. The requirements under this standard do not extend the use of fair value accounting but provide guidance on how it should be applied to both financial instrument items and non-financial items for which other PFRS require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances. This new standard applies prospectively from annual period beginning January 1, 2013, hence, disclosure requirements need not be presented in the comparative information in the first year of application.

Other than the additional disclosures presented in Note 6, the application of this new standard had no significant impact on the amounts recognized in the financial statements.

(v) 2009 – 2011 Annual Improvements to PFRS. Annual improvement to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following are relevant to the Bank:

(a). PAS 1 (Amendment), Presentation of Financial Statements – Clarification of the Requirements for Comparative Information. The amendment clarifies that a statement of financial position as at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosure of certain specified information in accordance with PAS 8, related notes to the third statement of financial position are not required to be presented.

Consequent to the Bank's adoption of PAS 19 (Revised) in the current year which resulted in retrospective restatement of the prior years' financial statements, the Bank has presented a third statement of financial position as of January 1, 2012, as a corresponding figure, without the related notes, except for the disclosure requirements of PAS 8.

(b). PAS 16 (Amendment), Property, Plant and Equipment – Classification of Servicing Equipment. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory. This amendment had no impact on the Bank's financial statements since it has been recognizing those servicing equipment, if any, in accordance with the recognition criteria under PAS 16.

(c). PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Tax*. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Bank's financial statements as it has been recognizing the effect of distributions to holders of equity instruments and transaction costs of an equity transaction in accordance with PAS 12.

(b) Effective in 2013 that are not Relevant to the Bank – The following amendments, annual improvements and interpretation to PFRS are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Bank's financial statements:

PFRS 1 (Amendment)	:	First-time Adoption of PFRS - Government Loans
PFRS 10	:	Consolidated Financial Statements
PFRS 11	:	Joint Arrangements
PFRS 12	:	Disclosure of Interests in Other Entities
PAS 27 (Revised)	:	Separate Financial Statements
PAS 28 (Revised)	:	Investments in Associates and Joint Ventures
PFRS 10, 11, and 12 (Amendment)	:	Amendments to PFRS 10, 11 and 12 - Transition Guidance to PFRS 10, 11 and 12
Annual Improvements:		
PAS 34 (Amendment)	:	Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities
PFRS 1 (Amendment)	:	First-time Adoption of PFRS – Repeated Application of PFRS 1 and Borrowing Cost
Philippine Interpretation International Financial Reporting Interpretation Committee 20	:	Stripping Costs in the Production Phase of a Surface Mine

(c) Effective Subsequent to 2013 but not Adopted Early – There are new PFRS, amendments, annual improvements and interpretation to existing standards that are effective for periods subsequent to 2013. Management has initially determined the pronouncements presented in the succeeding pages, which the Bank will apply in accordance with their transitional provisions, to be relevant to its financial statements.

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no significant impact on the Bank's financial statements.

(ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business; in the event of default; and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and provided characteristics of a gross settlement system that would satisfy the criterion for net settlement. Management does not anticipate this amendment to have a material impact on the Bank's financial statements.

(iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent years' financial statements the changes arising from this relief on disclosure requirements, if the impact of the amendment will be applicable.

(iv) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective from January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Bank neither enters into transactions involving derivative instruments nor it applies hedge accounting, the amendment will not have an impact on the financial statements.

(v) PFRS 9, *Financial Instruments: Classification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to the liability's credit risk is recognized in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

In November 2013, the IASB has published amendments to International Financial Reporting Standard (IFRS) 9 that contain new chapter and model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The amendment also now requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather in profit or loss. It also includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS/PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model.

The Bank does not expect to implement and adopt PFRS 9 until its effective date. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Bank and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(vi) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following amendments are relevant to the Bank but management does not expect a material impact on the Bank's financial statements:

Annual Improvements to PFRS (2010-2012 Cycle)

(a). PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), Intangible Assets. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

(b). PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the key management entity to its employees or directors.

(c). PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

(a). PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32

(b). PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3, *Business Combinations*, and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

3.3 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. Financial assets, other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), available-for-sale (AFS) financial assets, held-to-maturity (HTM) investments and loans and receivables. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

A more detailed description of the categories of financial assets relevant to the Bank are presented below and in succeeding pages:

(a) AFS Financial Assets – This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Bank's AFS financial assets include government bonds.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserve account in equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(b) HTM Investments – This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Bank has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. If the Bank were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified as AFS financial assets. The Bank currently holds government and corporate bonds designated into this category.

Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated future cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired.

(c) Loans and Receivables – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivables.

The Bank's financial assets categorized as loans and receivables are presented as Cash and Other Cash Items, Due From BSP, Due From Other Banks and Loans and Receivables in the statement of financial position. Cash and cash equivalents include cash on hand, savings and demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Bank will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Interest Income, Interest Expense and Impairment Losses in the statement of profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party.

3.4 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment, except for land, are carried at acquisition cost or construction cost less subsequent depreciation and amortization and any impairment losses. Land held for administration is stated at cost less any impairment losses.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows: Buildings – 25 years; Furniture, fixtures and transportation equipment – 3-5 years.

Leasehold and land improvements are amortized over the terms of the related leases or the useful lives of the improvements of ten years, whichever is shorter.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 3.15).

The residual values and estimated useful lives of bank premises, furniture, fixtures and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

Fully-depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect for those assets.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in profit or loss in the year the item is derecognized.

3.5 Investment Properties

Investment properties include parcels of land and buildings and related improvements acquired by the Bank from defaulting borrowers not held for sale in the next 12 months. These are initially measured at acquisition cost which comprise the carrying amount of the related loan after adjustments for unamortized premium or discount less allowance for credit losses plus accrued interest and directly attributable costs. Subsequently, investment properties are stated at cost less accumulated depreciation and any impairment in value.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are normally charged against current operations in the period in which these costs are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 3.15).

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

3.6 Prepayments and Other Resources

Prepayments and other resources pertain to other resources controlled by the Bank as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

3.7 Intangible Assets

Intangible assets include license and software and other intangibles which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production.

License, which has an indefinite useful life, is accounted for at cost less any accumulated impairment losses.

Capitalized costs of software and other intangibles are amortized on a straight-line basis over the estimated useful lives (ranging from three to ten years) as the lives of these intangible assets are considered finite. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

These intangible assets are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 3.15).

License and software and other intangible assets are presented as part of Prepayments and Other Resources account in the statement of financial position.

3.8 Financial Liabilities

Financial liabilities, which include deposit liabilities, bills payable and accrued expenses and other liabilities (excluding tax-related payables and post-employment defined benefit obligation), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liabilities are recognized as an expense in profit or loss under the caption Interest Expense in the statement of profit or loss.

Deposit liabilities are recorded or stated at amounts in which they are to be paid, which approximate fair value.

Bills payable are recognized initially at fair value, which is the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable are subsequently stated at amortized cost; any difference between the proceeds, net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are approved by the shareholders and BSP.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

3.9 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

3.11 Revenue and Expense Recognition

Revenue comprises revenue from rendering of services measured by reference to the fair value of consideration received or receivable by the Bank for the services rendered.

Revenue is recognized to the extent that the revenue can be reliably measured and it is probable that future economic benefits will flow to the Bank. All finance costs are reported in profit or loss on an accrual basis. Specific recognition criteria of income and expenses described below must also be met before the income or expense is recognized.

(a) *Interest* – Interest income and expenses are recognized in profit or loss for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(b) *Service charges, fees and commissions* – Revenue is generally recognized when the service has been provided.

(c) *Gain from disposal of AFS investments* – Gain from disposal of AFS financial assets is recognized when the ownership of the financial assets is transferred to the buyer. It is presented as part of Other Income in the statement of profit or loss. Consequently, the result of the revaluation of such asset at the end of the reporting period is presented as part of Fair Value Gain or Loss on AFS financial assets in the statement of comprehensive income.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis.

3.12 Leases – Bank as Lessee

Leases which do not transfer to the Bank substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes 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.

3.13 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

3.14 Impairment of Financial Assets

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

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others: (i) significant financial difficulty of the issuer or debtor; (ii) a breach of contract, such as a default or delinquency in interest or principal payments; (iii) it is probable that the borrower will enter bankruptcy or other financial reorganization; (iv) the disappearance of an active market for that financial asset because of financial difficulties; or (v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

(a) *Assets carried at fair value with changes recognized in other comprehensive income* – In the case of investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income as part of equity – is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(b) *Assets carried at amortized cost* – For assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivable or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and 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 for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible and subject to BSP guidelines, it may be written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures including approval from the management, the Board and the BSP have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are presented as part of Other Income in the statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and 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 effective interest rate. The difference between the recorded sale of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment Losses.

3.15 Impairment of Non-financial Assets

The Bank's bank premises, furniture, fixtures and equipment, investment properties, and license and goodwill (both presented as part of prepayments and other resources) are subject to impairment testing. Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

3.16 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan.

(a) *Defined Benefit Plan* – A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's post-employment defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bond as published by Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Income in the statement of profit or loss.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment.

(b) *Bonus Plans* – The Bank recognizes a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Bank's shareholders after certain adjustments. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

3.17 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

3.18 Related Party Relationships and Transactions

Related party transactions are transfer of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and, (d) the Bank's retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

3.19 Equity

Capital stock represents the nominal value of shares that have been issued.

Other reserves represent the difference between the net assets received from ONRBI and RBNCI and the amount of the shares issued which basically pertains to the net earnings of ONRBI and RBNCI prior to consolidation. This is subsequently reduced by the amount of stock and cash dividends declared which were effected against Other Reserves.

Revaluation reserves comprise fair value gains on revaluation of AFS financial assets and remeasurements of post-employment defined benefit plan.

Surplus represents all current and prior period results of operations as reported in the statement of profit or loss, reduced by the amounts of dividends declared.

3.20 Earnings Per Share

Basic EPS is computed by dividing net profit by the weighted average number of common shares issued and outstanding during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted EPS is computed by dividing net profit by the weighted average number of outstanding and dilutive potential common shares. Both basic and dilutive EPS amounts are computed after giving retroactive effect to stock dividends declared during the current period, if any.

3.21 Events After the End of the Reporting Period

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

4.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Bank's accounting policies, management has made the judgments presented below and on the next page, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) *Impairment of AFS Financial Assets* – The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Bank's AFS financial assets, management concluded that the assets are not impaired as at December 31, 2013 and 2012. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(b) *Classifying Financial Assets as HTM Investments* – In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances as allowed under the standard, it will be required to reclassify the whole class as AFS financial assets. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

(c) *Distinguishing Investment Properties and Owner-managed Properties* – The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in operations.

(d) *Distinguishing Operating and Finance Leases* – The Bank has entered into various lease agreements as a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(e) *Recognition of Provisions and Contingencies* – Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 3.10 and disclosures of relevant contingencies are presented in Note 28.

4.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) *Fair Value Measurement for Financial Instruments* – Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying values of the Bank's AFS financial assets and the amounts of fair value changes recognized during the years on those assets are disclosed in Note 10.

(b) *Impairment of Loans and Receivables* – Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. For loans receivables, the Bank evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Bank's relationship with the borrowers, the borrowers' current credit status, average age of accounts, collection experience and historical loss experience. For other receivables, the Bank assesses the significant financial difficulty of the debtor or where applicable, the observable data indicating that there is a measurable decrease in the estimated future cash flows since the initial recognition of the financial asset, although the decrease cannot yet be identified.

The carrying value of loans and receivables and the analysis of allowance for impairment on such financial assets are shown in Notes 12 and 16, respectively.

(c) *Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment and Investment Properties* – The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures and equipment and investment properties are analyzed in Notes 13 and 14, respectively. Based on management's assessment as at December 31, 2013 and 2012, there is no change in estimated useful lives of these assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) *Determining Realizable Amount of Deferred Tax Assets* – The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2013 and 2012 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 24.

(e) *Impairment of Non-financial Assets* – In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 3.15). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses on non-financial assets recognized in 2013 and 2012 amounted to P4.8 million and P16.0 million as disclosed in Note 16.

(f) *Valuation of Post-employment Defined Benefit Plan* – The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary rate increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment defined benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment defined benefit obligation are presented in Note 23.2.

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to a variety of potential risks arising from its business activities. It enters into financial instrument contracts, which consist of AFS financial assets,

HTM investments, loans and receivables, and financial liabilities such as deposits and bills payable to finance the Bank's operations. The Bank's financial assets and liabilities by category are summarized in Note 6. The main types of risks to which the Bank is exposed includes market risk, credit risk, liquidity risk, operations risk and legal and regulatory risk.

5.1 Risk Oversight Structure

The BOD is primarily responsible for approving the credit policies and the overall risk capacity of the Bank. Board committees have been established by the BOD to oversee the increasingly varied risk management activities of the Bank with the active participation of senior management.

(a) *Risk Oversight Committee* – To manage the financial risk for holding financial assets and liabilities, the Bank's Risk Oversight Committee (ROC) was created to address the risks it faces in its banking activities, including liquidity, interest rate, credit and market risks. ROC provides oversight of credit, market, liquidity, operations, legal and other risks taken throughout the Bank. The Risk Management Department performs an independent business function within the Bank and is responsible for developing and maintaining the Bank's risk policy framework.

The Bank's ROC was created with the following core responsibilities: (i) identify and evaluate exposures; (ii) develop risk management strategies; (iii) implement the risk management plan; and, (iv) review and revise the plan as needed.

The ROC has the following specific duties and responsibilities:

(i) review the risk infrastructure and operating policies to ensure these are congruent with corporate policies on prudent risk management, and conform to regulatory, industry and technological standards, trends and best practices. On an on-going basis, identify and assess the external risk that may affect the business plans and directions of the Bank;

(ii) review the Bank's capital allocation methodology;
(iii) establish, in consultation with Management and subject to BOD's approval, corporate policies and guidelines for risk management, reporting, and management;
(iv) review the Bank's asset management activities, including oversight structure for general policies and reports;
(v) review the steps that Management has taken to monitor and control risk exposures. Review the management's performance against these policies and benchmarks;
(vi) promote the continuous development of risk programs and infrastructure; ensure that business units provide for ongoing review of the adequacy and soundness of policies, assumptions and practices;
(vii) create and promote risk culture that requires and encourages the highest standards of ethical behavior by risk managers and risk-taking personnel;
(viii) encourage the professional development and training of staff engaged in both risk management activities and risk-taking activities;
(ix) review annually the ROC charter to reassess its adequacy, implement best practices and propose necessary changes to the Board of Directors' approval; and,
(x) submit its annual performance report to the BOD.

(b) Audit Committee

The Bank's Audit Committee's main function is to assist the Board in oversight functions and adopts a more proactive role in ensuring accountability on the part of management as well as of the internal and external auditors. The committee monitors the internal control over financial reporting of the Bank and the audits of its financial statements, substantiates the performance of the Banks's internal audit, verifies the independent auditor's qualifications and independence, thus safeguarding the overall objectivity of the financial reporting and internal control processes and confirms the compliance of the Bank with legal and regulatory requirements.

5.2 Market Risk

The Bank is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from both its operating, investing and financing activities.

(a) Foreign Currency Risk – Most of the Bank's transactions are carried out in Philippine pesos, its functional currency. The Bank's exposures to currency exchange rates may arise from deposits with other banks denominated in currencies other than the Philippine peso. As at December 31, 2013 and 2012, the Bank has no significant foreign currency risk exposure as it has no significant foreign-currency denominated deposits with other banks.

(b) Interest Rate Risk – The Bank's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long-term borrowings are therefore usually made at fixed rates. As at December 31, 2013 and 2012, the Bank is exposed to changes in market interest rates through its due from other banks, which are subject to variable interest rates, and bills payable which are subject to interest rate repricing. All other financial assets and liabilities have fixed rates.

Due from other banks are tested on a reasonably possible change of +/- 1.10% and +/- 1.20% in 2013 and 2012, respectively. Bills payable subject to interest rate repricing are tested on a reasonably possible change of +/- 1.67% and +/- 1.82% for Philippine peso and +/- 0.69% and +/- 0.88% for U.S. dollar in 2013 and 2012, respectively. These percentages have been determined based on the average market volatility of interest rates, using standard deviation, in the previous 12 months estimated at 99.00% level of confidence. The sensitivity analysis is based on the Bank's financial instruments held at the end of the each reporting period, with effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/- P29.6 million and +/-P20.0 million in 2013 and 2012, respectively.

(c) Other Price Risk – The Bank's market price risk arises from its investments carried at fair value. The Bank manages exposure to price risk of AFS financial assets by monitoring the changes in the market price of these investments and at some extent, diversifying the investment portfolio in accordance with the limit set by management.

5.3 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Bank. The Bank is exposed to this risk for various financial instruments arising from granting loans and receivables to customers, placing deposits with other banks and investing in bonds.

The Bank continuously monitors defaults of borrowers and other counterparties, identified either individually or by group; and incorporates this information into its credit risk controls. The Bank's policy is to deal only with creditworthy counterparties. In addition, for certain types of loans, collaterals are required to mitigate credit risk.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statements of financial position (or in the detailed analysis provided in the notes to the financial statements), as summarized below.

	Notes		**2013**		2012
Cash and cash equivalents	7	**P**	**3,702,888,759**	P	2,254,062,029
AFS financial assets	10		**1,588,089,309**		1,519,915,019
HTM investments	11		**141,104,966**		323,077
Loans and receivables – net	12		**18,703,129,263**		14,955,134,143
		P	**24,135,212,297**	P	18,729,434,268

The Bank's financial assets are in part secured by collateral guarantees and other credit enhancements, as described below and in the succeeding pages.

(a) Cash and Cash Equivalents – The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every deposit per banking institution.

(b) AFS Financial Assets and HTM Investments – The carrying amount of AFS financial assets and HTM investments is the maximum possible credit risk exposure of the Bank in relation to the said investments.

(c) Loans and Receivables – In respect of loans and receivables, the Bank is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Loans and receivables consist of a large number of borrowers in various industries and geographical areas. Based on historical information about borrower default rates, management considers the credit quality of loans and receivables that are not past due or impaired to be good.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees. With respect to foreclosed collaterals, these are normally actively disposed by the Bank.

The Bank's loans are actively monitored to avoid significant concentrations of credit risk in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of persons in excess of 25.00% of its net worth.

In addition, the Bank has credit risk exposure on unimpaired loans and other receivables that are past due as at the end of the reporting period. As at December 31, 2013 and 2012, loans and receivables that are past due but not impaired amounted to P208.4 million and P278.8 million, respectively, which are outstanding for less than one year.

The table below shows the credit quality by class of financial assets based on the Bank's rating system as at December 31, 2013.

		High Grade		Standard Grade		Substandad Grade		Past Due and Individually Impaired		Total
Cash and cash equivalents	P	3,702,888,759	P	-	P	-	P	-	P	3,702,888,759
AFS financial assets		1,588,089,309		-		-		-		1,588,089,309
HTM investments		141,104,966		-		-		-		141,104,966
Loans and receivables - gross		18,202,862,072		295,116,503		208,425,801		592,281,077		19,298,685,453
	P	**23,634,945,106**	**P**	**295,116,503**	**P**	**208,425,801**	**P**	**592,281,077**	**P**	**24,730,768,487**

The table below shows the credit quality by class of financial assets based on the Bank's rating system as at December 31, 2012.

		High Grade		Standard Grade		Substandad Grade		Past Due and Individually Impaired		Total
Cash and cash equivalents	P	2,254,062,029	P	-	P	-	P	-	P	2,254,062,029
AFS financial assets		1,519,915,019		-		-		-		1,519,915,019
HTM investments		323,077		-		-		-		323,077
Loans and receivables - gross		14,399,969,299		277,182,578		278,842,546		582,432,625		15,538,427,048
	P	18,174,269,424	P	277,182,578	P	278,842,546	P	582,432,625	P	19,312,727,173

The credit grades used by the Bank in evaluating the credit quality of its loans and receivables are the following:

(a) High grade or low risk loans – These loans are neither past due nor impaired which are fully secured by collateral and with good collection status. This category includes credit grades 1 – 3. High grade loans are those which possess high probability of collection, as evidenced by counterparties having ability to satisfy their obligations and that the collaterals used to secure the loans are readily enforceable.

(b) Standard grade or medium risk loans – past due nor impaired with partially secured loan status. This category includes credit grade 4 – 5. The standard grade category includes loans for which collections are probable due to the reputation and financial capacity to pay of the counterparty but have been outstanding for a considerable length of time.

(c) Substandard grade or high risk loans – Substandard grade loans are those where the counterparties are, most likely, not capable of honoring their financial obligations. These loans include impaired loans which have continuous loan collection default issues or past due but not impaired loans and receivable accounts.

An estimate of the fair value of collateral and other security enhancements held by the Bank against loans and receivables as at December 31, 2013 and 2012 amounted to P2,960.0 million and P2,743.8 million, respectively.

5.4 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

The analyses of the maturity groupings of resources and liabilities items as at December 31, 2013 and 2012 are presented below.

	2013				2012			
	One Year and Below	Over One Year to Five Years	Beyond Five Years	Total	One Year and Below	Over One Year to Five Years	Beyond Five Years	Total
Financial resources	P 7,887,569,715	P 13,616,315,512	P 2,631,327,070	P 24,135,212,297	P 6,204,185,520	P 11,615,343,360	P 909,905,388	P 18,729,434,268
Financial liabilities	(20,423,603,348)	(1,006,044,673)	(446,103,457)	(21,875,751,478)	(13,850,976,641)	(819,695,317)	(2,374,613,066)	(17,045,285,024)
Positive (negative) gap	**(P12,536,033,633)**	**P12,610,270,839**	**P 2,185,223,613**	**P 2,259,460,819**	(P 7,646,791,121)	P 10,795,648,043	(P 1,464,707,678)	P 1,684,149,244

As at December 31,2013 and 2012, the Bank's financial liabilities presented by contractual maturities are presented below:

	2013				2012			
	Current		Non-current		Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Beyond 5 Years	Within 6 Months	6 to 12 Months	1 to 5 Years	Beyond 5 Years
Deposit liabilities	P 15,102,196,785	P 1,509,940,517	P 1,147,705,645	P 457,256,043	P 12,871,886,411	P 270,374,749	P 974,138,149	P 416,460,039
Bills payable	3,549,570,036	-	-	-	2,634,635,061	-	-	-
Accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation)	300,080,681	31,999,541	4,612,469	-	302,061,006	27,589,146	5,511,802	-
	P18,951,847,502	**P 1,541,940,058**	**P 1,152,318,114**	**P 457,256,043**	P 15,808,582,478	P 297,963,895	P 979,649,951	P 416,460,039

The contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of each reporting period.

5.5 Operations Risk

Operations risks are risks arising from the potential inadequate information systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls and fraud or unforeseen catastrophes that may result in unexpected loss. Operations risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The Bank has established measures to mitigate the effects of risks related to operations through its senior management. At year-end, the Bank also ensures that disclosures are made in the financial statements for any significant accounts, if any, which may have been affected by such risk.

5.6 Legal and Regulatory Risks

Legal risk pertains to the Bank's exposure to losses arising from cases decided not in favor of the Bank where significant legal costs have already been incurred, or in some instances, where the Bank may be required to pay damages. The Bank is often involved in litigation in enforcing its collection rights under loan agreements in case of borrower default. The Bank may incur significant legal expenses as a result of these events, but the Bank may still end up with non-collection or non-enforcement of claims. The Bank has established measures to avoid or mitigate the effects of these adverse decisions and engages several qualified legal advisors, who were endorsed to and carefully approved by senior management. At year-end, the Bank also ensures that material adjustments or disclosures are made in the financial statements for any significant commitments or contingencies which may have arisen from legal proceedings involving the Bank.

Regulatory risk refers to the potential risk for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of a country. The monitoring of the Bank's compliance with these regulations, as well as the study of the potential impact of new laws and regulations, is the primary responsibility of the Bank's Compliance Officer. The Compliance Office is responsible for communicating and disseminating new rules and regulations to all units, analyzing and addressing compliance issues, performing periodic compliance testing on branches and Head Office units, and reporting compliance findings to the Audit Committee and the BOD.

6. CATEGORIES, FAIR VALUE MEASUREMENT AND DISCLOSURES AND OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

6.1 Comparison of Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and liabilities presented in the statements of financial position are shown below.

		2013		2012	
	Notes	**Carrying Values**	**Fair Values**	Carrying Values	Fair Values
Financial Assets					
Loans and receivables:					
Cash and other cash items	7	**P 1,251,437,159**	**P 1,251,437,159**	P 904,551,125	P 904,551,125
Due from BSP	8	**516,725,972**	**516,725,972**	369,107,846	369,107,846
Due from other banks	9	**1,934,725,628**	**1,934,725,628**	980,403,058	980,403,058
Loans and receivables - net	12	**18,703,129,263**	**18,703,129,263**	14,955,134,143	14,955,134,143
		22,406,018,022	**22,406,018,022**	17,209,196,172	17,209,196,172
AFS financial assets	10	**1,588,089,309**	**1,588,089,309**	1,519,915,019	1,519,915,019
HTM investments	11	**141,104,966**	**152,479,371**	323,077	323,077
		P 24,135,212,297	**P 24,146,586,702**	P 18,729,434,268	P 18,729,434,268
Financial Liabilities at amortized cost					
Deposit liabilities	17	**P 17,999,593,630**	**P 17,999,593,630**	P 14,108,243,071	P 14,108,243,071
Bills payable		**3,539,465,158**	**3,539,465,158**	2,601,880,000	2,601,880,000
Accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation)		**336,692,691**	**336,692,691**	335,161,954	335,161,954
		P 21,875,751,479	**P 21,875,751,479**	P 17,045,285,025	P 17,045,285,025

See Notes 3.3 and 3.8 for a description of the accounting policies for each category of financial instrument. A description of the Bank's risk management objectives and policies for financial instruments is provided in Note 5.

6.2 Fair Value Measurement and Disclosures

(a) *Fair Value Hierarchy* – In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy levels are presented on the next page.

a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(b) *Financial Instruments Measured at Fair Value* – The table below shows the fair value hierarchy of the Bank's classes of financial assets and financial liabilities measured at fair value in the statement of financial position as at December 31, 2013.

	Note	Level 1	Level 2	Level 3	Total
Financial Assets					
Debt Securities:					
AFS financial assets	10	**P 1,588,089,309**	**P -**	**P -**	**P 1,588,089,309**

The Bank has no financial liabilities measured at fair value as at December 31, 2013.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in 2013.

The fair value of the Bank's debt securities which consist of government and corporate bonds estimated by reference to the quoted bid price in an active market at the end of the reporting period and is categorized within Level 1.

(c) *Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed* – The table below and on the next page summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the 2013 statement of financial position but for which fair value is disclosed.

	Notes	Level 1	Level 2	Level 3	Total
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	7	P 3,702,888,759	P -	P -	P 3,702,888,759
Loans and receivables - net	12	-	-	18,703,129,263	18,703,129,263
HTM investments	11	-	151,247,493	1,231,878	152,479,371
		P 3,702,888,759	**P 151,247,493**	**P 18,704,361,141**	**P 22,558,497,393**
Financial Liabilities					
At amortized cost:					
Deposit liabilities	17	P -	P -	P 17,999,593,630	P 17,999,593,630
Bills payable	18	-	-	3,539,465,158	3,539,465,158
Accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation)	19	-	-	336,692,691	336,692,691
		P -	**P -**	**P 21,875,751,479**	**P 21,875,751,479**

For financial assets with fair values included in Level 1, management considers that the carrying amounts of financial instruments approximate their fair values.

The fair values of the financial assets and liabilities included in Level 3 above which are not traded in an active market are determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument. Financial liabilities included in this level are deposit liabilities and accrued expenses and other liabilities.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3. Bills payable as a financial liability is included under this level.

(d) *Fair Value Measurement for Non-financial Assets* – There were no non-financial assets measured at fair value both as at December 31, 2013 and 2012.

6.3 Offsetting of Financial Assets and Liabilities

The following financial assets with net amounts presented in the statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amounts recognized in the statement financial position		Net amount presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
	Financial assets	Financial liabilities set off		Financial instruments	Cash collateral received	
December 31, 2013:						
Loans and receivables-net	**P 18,740,090,696**	**P 36,961,433**	**P 18,703,129,263**	**(P 66,283,597)**	**P -**	**P 18,636,845,666**
AFS financial assets	**1,588,089,309**	**-**	**1,588,089,309**	**(726,000,000)**	**-**	**862,089,309**
HTM investments	**141,104,966**	**-**	**141,104,966**	**-**	**-**	**141,104,966**
December 31, 2012:						
Loans and receivables-net	14,967,968,155	12,834,012	14,955,134,143	(101,794,121)	-	14,853,340,022
AFS financial assets	1,519,915,019	-	1,519,915,019	(771,000,000)	-	748,915,019
HTM investments	323,077	-	323,077	-	-	323,077

The following financial liabilities with net amounts presented in the statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amounts recognized in the statement financial position		Net amount presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
	Financial liabilities	Financial assets set off		Financial instruments	Cash collateral received	
December 31, 2013:						
Deposit liabilities	**P 18,036,555,063**	**P 36,961,433**	**P 17,999,593,630**	**(P 66,283,597)**	**P -**	**P 17,933,310,033**
Bills payable	**3,539,465,158**	**-**	**3,539,465,158**	**(726,000,000)**	**-**	**2,813,465,158**
December 31, 2012:						
Deposit liabilities	14,121,077,083	12,834,012	14,108,243,071	(101,794,121)	-	14,006,448,950
Bills payable	2,601,880,000	-	2,601,880,000	(771,000,000)	-	1,830,880,000

For financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above and in the previous page, each agreement between the Bank and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7. CASH AND CASH EQUIVALENTS

For purposes of presenting the cash flows, cash and cash equivalents consist of the following:

	Notes	2013	2012
Cash and other cash items		**P 1,251,437,159**	P 904,551,125
Due from BSP	8	**516,725,972**	369,107,846
Due from other banks	9	**1,934,725,628**	980,403,058
		P 3,702,888,759	P 2,254,062,029

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on other banks or other branches after the Bank's clearing cut-off time until the close of the regular banking hours.

8. DUE FROM BANGKO SENTRAL NG PILIPINAS

This account represents the Bank's demand deposit with the BSP in compliance with BSP's reserve requirements (see Note 7). The Bank has satisfactorily complied with the reserve requirements of the BSP. Interest income on deposits with BSP amounted to P2.1 million in 2012, which is presented as part of Interest Income on Deposits with Other Banks in the 2012 statement of profit or loss. The deposit no longer earned interest in 2013.

9. DUE FROM OTHER BANKS

This account is composed of the following as at December 31:

	Note	2013	2012
Demand and savings		P 1,430,835,764	P 486,890,124
Time		503,889,864	493,512,934
	7	P 1,934,725,628	P 980,403,058

Saving deposits bears interest at 0.38% to 2.50% and 1.00% to 2.50% per annum in 2013 and 2012, respectively. Interest income on deposits with other banks amounted to P35.1 million and P41.4 million in 2013 and 2012, respectively, which is presented as part of Interest Income on Deposits with Other Banks in the statements of profit or loss. All of the Bank's time deposits which can be pre-terminated anytime, will mature within one year to two years and bear interest at rates ranging from 1.00% to 7.50% and 1.0 to 2.50% per annum in 2013 and 2012, respectively.

10. AFS FINANCIAL ASSETS

This account consists of peso-denominated bonds issued by the Philippine government with annual nominal interest rates ranging from 6.10% to 8.00% and will mature in various dates until 2035.

The reconciliation of the carrying amounts of AFS financial assets as at December 31 are presented below.

	2013	2012
Balance at beginning of year	P 1,519,915,019	P 1,795,836,741
Additions	606,231,258	1,108,924,869
Fair value gains (losses) - net	(6,574,124)	(15,604,153)
Disposal	(531,482,844)	(1,400,450,744)
Balance at end of year	P 1,588,089,309	P 1,519,915,019

Investments amounting to P1,157.8 million and P526.3 million as at December 31, 2013 and 2012, respectively, are pledged to secure the bills payable to China Banking Corporation (CBC), Rizal Commercial Banking Corporation (RCBC), Bank of the Philippine Islands (BPI) and Banco de Oro Unibank (BDO) under the Bank's back-to-back line with the said banks (see Note 18).

The fair value of government bonds have been determined under Level 1 hierarchy and measured directly by reference to published prices in an active market [see Note 6.2 (b)].

The interest income recognized during the period amounting to P89.6 million and P93.9 million in 2013 and 2012, respectively, is presented as part of Interest Income on Investments in the statements of profit or loss. Gain from disposal of AFS financial assets amounted to P38.6 million in 2013 and P62.0 million in 2012, and is presented as part of Others under Other Income in the statements of profit or loss (see Note 22).

11. HELD-TO-MATURITY INVESTMENTS

This account consists of investments in bonds issued by RCBC and Land Bank of the Philippines (LBP) broken down as follows:

	2013	2012
RCBC	P 139,873,088	P -
LBP	1,231,878	323,077
	P 141,104,966	P 323,077

Bond investment in RCBC was acquired in 2013 for liquidity reserve purpose of the Bank which bear fixed coupon rate of 8.20% per annum and will mature on January 19, 2026.

Bond investments in LBP represent investment received as payment for the land, which is presented previously as Investment Properties in the statements of financial position, under the Voluntary Offer to Sell program of the Department of Agrarian Reform. These investments bear market interest rates based on 91-day treasury bill rates and are redeemable in ten annual installments from the dates these were issued. The outstanding LBP bonds as at December 31, 2013 and 2012 will mature in various dates until 2016.

The interest income recognized during the period for HTM investments, presented as part of Interest Income on Investments in the statements of profit or loss, amounted to P1.7 million and P25.6 thousand in 2013 and 2012, respectively.

Management assessed that no impairment loss on the Bank's HTM investments is to be recognized in 2013 and 2012.

12. LOANS AND RECEIVABLES

As at December 31, the breakdown of this account follows:

	Notes	2013	2012
Loans:			
Individual consumption		P 7,529,222,674	P 6,193,710,382
Agricultural		5,277,945,232	4,831,207,793
Housing		3,392,266,919	2,930,790,786
Commercial		1,660,887,811	410,664,344
Others		172,055,067	135,573,094
		18,032,377,703	14,501,946,399
Allowance for impairment	16	(535,033,679)	(542,591,855)
Unearned discounts		(3,275,113)	(860,280)
		17,494,068,911	13,958,494,264
Accrued interest receivable		1,054,938,999	735,056,445
Allowance for impairment	16	(32,701,775)	(18,247,506)
		1,022,237,224	716,808,939
Accounts receivable	29.1 *(g)*	211,368,751	301,424,204
Allowance for impairment	16	(24,545,623)	(21,593,264)
		186,823,128	279,830,940
	7	P 18,703,129,263	P 14,955,134,143

Loans considered past due as at December 31, 2013 and 2012 amounted to P710.8 million and P571.6 million, respectively. Portion of the past due accounts and accounts under litigation are covered with real estate mortgages, which could be foreclosed to reduce possible losses from non-collection.

Loans amounting to P2,115.7 million and P2,100.8 million as at December 31, 2013 and 2012, respectively, are pledged to secure the bills payable to LBP, BSP and BPI under the Bank's rediscounting and credit line with the said banks (see Note 18).

Loans to directors, officers, stockholders and related interests (DOSRI) amounted to P18.5 million and P139.8 million as at December 31, 2013 and 2012, respectively, representing 0.00% and 0.96% of the total loan portfolio (see Note 21.1). Said DOSRI loans are all current and fully secured with collaterals.

Interest income on loans and receivables recognized during the period is presented as Interest Income on Loans and Receivables in the statements of profit or loss amounted to P1,708.1 million and P1,476.0 million, respectively.

The breakdown of loans as to secured and unsecured follows:

	2013	2012
Unsecured	P 14,235,117,047	P 12,342,286,404
Real estate mortgage	3,731,022,059	2,057,865,874
Deposit hold-out	66,238,597	101,794,121
	P 18,032,377,703	P 14,501,946,399

The breakdown of loans as to the Bank's credit accommodations by industry follows:

	2013	2012
Agricultural	**P 5,133,627,373**	P 4,624,211,701
Real estate, rental and business activities	**3,392,266,919**	3,195,440,843
Education	**2,964,729,325**	2,464,814,752
Wholesale and retail trade	**2,091,014,873**	1,642,698,108
Others	**4,450,739,213**	2,574,780,995
	P 18,032,377,703	P 14,501,946,399

The maturity profile of the Bank's loans is shown below.

	2013	2012
One year and below	**P 2,936,452,843**	P 2,688,789,759
One year to five years	**14,181,984,162**	10,679,176,715
Beyond five years	**913,940,698**	1,133,979,925
	P 18,032,377,703	P 14,501,946,399

The classification of loans as to interest rate follows:

	2013	2012
Over 25.00% - 30.00%	**P 29,307,715**	P 11,414,709
Over 20.00% - 25.00%	**29,929,948**	28,297,142
Over 15.00% - 20.00%	**250,682,543**	387,629,542
15.00% and below	**17,722,457,497**	14,074,605,006
	P 18,032,377,703	P 14,501,946,399

13. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2013 and 2012 are shown below.

	Buildings	Furniture, Fixtures and Transportation Equipment	Leasehold and Land Improvements	Land	Construction in Progress	Total
December 31, 2013						
Cost	P 670,101,477	P 674,991,140	P 21,707,682	P 565,797,681	P 27,899,640	P 1,960,497,620
Accumulated depreciation and amortization	(148,786,323)	(481,943,499)	(8,220,057)	-	-	(638,949,879)
Allowance for impairment	(4,383,872)	-	-	13,833,696	-	(18,217,568)
Net carrying amount	**P 516,931,282**	**P 193,047,641**	**P 13,487,625**	**P 551,963,985**	**P 27,899,640**	**P 1,303,330,173**
December 31, 2012						
Cost	P 630,815,033	P 592,352,937	P 21,220,549	P 436,492,694	P 2,608,630	P 1,683,489,843
Accumulated depreciation and amortization	(114,770,642)	(415,914,363)	(6,965,032)	-	-	(537,650,037)
Allowance for impairment	(3,897,524)	-	-	(9,546,423)	-	(13,443,947)
Net carrying amount	P 512,146,867	P 176,438,574	P 14,255,517	P 426,946,271	P 2,608,630	P 1,132,395,859
January 1, 2012						
Cost	P 309,945,423	P 476,504,175	P 14,866,507	P 388,704,298	P 146,787,314	P 1,336,807,717
Accumulated depreciation and amortization	(93,149,932)	(360,311,506)	(5,879,672)	-	-	(459,341,110)
Net carrying amount	P 216,795,491	P 116,192,669	P 8,986,835	P 388,704,298	P 146,787,314	P 877,466,607

A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012, of bank premises, furniture, fixtures and equipment is shown below:

	Buildings	Furniture, Fixtures and Transportation Equipment	Leasehold and Land Improvements	Land	Construction in Progress	Total
Balance at January 1, 2013, net of accumulated depreciation and amortization	P 512,146,867	P 176,438,574	P 14,255,517	P 426,946,271	P 2,608,630	P 1,132,395,859
Additions	21,685,481	85,560,158	90,571	131,976,016	52,426,207	291,738,433
Transfers	25,900,283	-	1,234,914	-	(27,135,197)	-
Cost of disposal	(8,299,320)	(2,921,955)	(838,352)	(2,671,029)	-	(14,730,656)
Accumulated depreciation of assets disposed	4,271,679	2,921,954	-	-	-	7,193,633
Depreciation and amortization charges for the year	(38,287,360)	(68,951,090)	(1,255,025)	-	-	(108,493,475)
Impairment losses	(486,348)	-	-	(4,287,273)	-	(4,773,621)
Balance at December 31, 2013, net of accumulated depreciation and amortization	**P 516,931,282**	**P 193,047,641**	**P 13,487,625**	**P 551,963,985**	**P 27,899,640**	**P 1,303,330,173**
Balance at January 1, 2012, net of accumulated depreciation and amortization	P 216,795,491	P 116,192,669	P 8,986,835	P 388,704,298	P 146,787,314	P 877,466,607
Additions	15,144,558	100,177,985	7,163,653	50,606,696	197,373,185	370,466,077
Transfers	312,940,735	29,181,255	-	(570,121)	(341,551,869)	-
Cost of disposal	-	-	(380,717)	(1,411,306)	-	(1,792,023)
Depreciation and amortization charges for the year	(28,474,918)	(69,113,335)	(1,514,254)	-	-	(99,102,507)
Impairment losses	(4,258,999)	-	-	(10,383,296)	-	(14,642,295)
Balance at December 31, 2012, net of accumulated depreciation and amortization	P 512,146,867	P 176,438,574	P 14,255,517	P 426,946,271	P 2,608,630	P 1,132,395,859

Properties absorbed by the Bank from RBSEI upon merger included in the 2013 additions amounted to P10.2 million.

Total depreciation and amortization expense amounted to P108.5 million and P99.1 million for the years ended December 31, 2013 and 2012, respectively, and is presented as part of the Occupancy and Equipment Related Expenses account under Other Expenses in the statements of profit or loss.

Cost of fully-depreciated assets still used in operations amounted to P334.0 million and P310.5 million in 2013 and 2012, respectively.

Land and building with total carrying amount of P293.6 million and P331.7 million as at December 31, 2013 and 2012, respectively, are used as collaterals for the Bank's loans presented as bills payable (see Note 18).

14. INVESTMENT PROPERTIES

This account represents parcels of land and buildings and related improvements acquired in settlement of loans which are held for capital appreciation. Investment properties are carried at cost less allowance for impairment and accumulated depreciation.

The gross carrying amounts, allowance for impairment and accumulated depreciation at the beginning and end of 2013 and 2012 are shown below.

	Note	2013	2012
Cost		P 27,973,850	P 21,254,626
Allowance for impairment	16	(1,814,684)	(1,502,454)
Accumulated depreciation		(225,000)	(179,547)
Net carrying amount		P 25,934,166	P 19,572,625

A reconciliation of the carrying amount at the beginning and end of 2013 and 2012, of investment properties, are shown below:

	Note	2013	2012
Balance at January 1, net of allowance for impairment and accumulated depreciation		P 19,572,625	P 15,128,743
Additions	2	6,786,632	7,541,034
Disposals		(67,408)	(2,230,673)
Impairment losses	2, 16	(312,230)	(821,026)
Depreciation		(45,453)	(45,453)
Balance at December 31, net of allowance for impairment and accumulated depreciation		P 25,934,166	P 19,572,625

Additions and impairment losses in 2013 pertain to properties absorbed by the Bank from RBSEI upon merger.

The Bank recognized income from disposal of investment properties amounting to P 0.3 million and P1.9 million in 2013 and 2012, respectively, and is presented as part of income from assets sold under Other Income in the statements of profit or loss (see Note 22). Proceeds from disposal of investment property amounted to P0.3 million and P4.9 million in 2013 and 2012, respectively.

15. PREPAYMENTS AND OTHER RESOURCES

The composition of this account as at December 31 is shown below.

	Notes	2013	2012 (As Restated - see Note 3.2)
Prepaid expenses		P 89,801,544	P 31,782,977
License		27,782,898	27,782,898
Software and other intangibles – net		25,801,437	28,941,858
Unused stationery and supplies		14,675,105	12,173,144
Goodwill	2, 20.3	14,013,933	-
Investment in equity securities		6,448,462	6,448,462
Prepaid rent		898,223	831,899
Post-employment defined benefit asset		-	29,404,761
Others		4,635,477	3,964,610
		184,057,079	141,330,609
Allowance for impairment	16	(532,000)	(532,000)
		P 183,525,079	P 140,798,609

Prepaid expenses pertain to the Bank's advance payment of administrative expenses related to advertising, personnel uniform, rent, insurance and other expenses.

License and goodwill, which are assessed to have an indefinite useful life, are subject to annual impairment testing and whenever there is an indication of impairment. Management believes that there are no impairment losses on both intangible assets in 2013. Impairment loss on license recognized in 2012 amounted to P0.5 million (see Note 16).

16. ALLOWANCE FOR IMPAIRMENT

The changes in the allowance for impairment are presented below.

	Notes	2013	2012 (As Restated - see Note 3.2)
Balance at beginning of year:			
Loans and other receivables		P 582,432,625	P 465,097,055
Bank premises, furniture, fixtures and equipment		13,443,947	-
Investment properties		1,502,454	681,428
Prepayments and other resources		532,000	-
		597,911,026	465,778,483
Impairment losses			
Loans and other receivables		2,410,222	117,335,570
Bank premises, furniture, fixtures and equipment	13	4,773,621	14,642,295
Investment properties	14	-	821,026
Prepayments and other resources	15	-	532,000
		7,183,843	133,330,891
Reversal and adjustment		7,750,461	(1,198,348)
Balance at end of year:			
Loans and other receivables	12	592,281,077	582,432,625
Bank premises, furniture, fixtures and equipment	13	18,217,568	13,443,947
Investment properties	14	1,814,685	1,502,454
Prepayments and other resources	15	532,000	532,000
		P 612,845,330	P 597,911,026

Adjustment was made in 2013 to book the properties, including allowance for impairment, absorbed by the Bank from RBSEI upon merger (see Note 2). Reversal and adjustment in 2012 pertain to recoveries of written off loan accounts.

17. DEPOSIT LIABILITIES

As at December 31, deposit liabilities consist of the following:

	Notes	2013	2012
Demand		P 1,506,826,028	P 1,243,697,198
Savings		7,496,103,799	6,022,266,626
Time		8,996,663,803	6,842,279,247
	21.1	P 17,999,593,630	P 14,108,243,071

Outstanding balance of deposits from DOSRI amounted to P5,355.4 million and P4,069.8 million as at December 31, 2013 and 2012, respectively (see Note 21.1).

The breakdown of time deposits as to their maturities is presented below:

		2013		2012
One year and below	P	**7,544,515,673**	P	5,815,566,835
More than one year but not more than three years		**34,149,414**		15,082,168
More than three years but not more than five years		**971,895,259**		693,381,940
More than five years		**446,103,457**		318,248,304
	P	**8,996,663,803**	P	6,842,279,247

Demand and savings deposits have an annual interest rate of 0.50% while time deposits have interest rates ranging from 1.25% to 4.18% per annum both in 2013 and 2012.

Interest expense on deposit liabilities recognized during the period amounted to P347.8 million and P316.5 million in 2013 and 2012, respectively, and is presented as Interest Expense on Deposit Liabilities in the statements of profit or loss.

18. BILLS PAYABLE

This account consists of the Bank's payables to the following as at December 31:

		2013		2012
LBP	P	**1,500,785,319**	P	1,650,000,000
RCBC		**1,000,000,000**		-
BPI		**520,000,000**		420,000,000
BSP		**260,263,839**		30,880,000
BDO		**256,000,000**		51,000,000
DBP		**2,416,000**		-
CBC		**-**		450,000,000
	P	**3,539,465,158**	P	2,601,880,000

The Bank availed of rediscounting facilities from LBP, BPI, BSP and DBP with interest rates of 3.50% to 4.30% and 3.50% to 4.50% in 2013 and 2012, respectively. These loans are collateralized by assignment of the Bank borrowers' promissory notes and real estate mortgages (see Note 12). The loans with LBP, BPI, BSP and DBP will mature on various dates in 2014.

Loans with CBC, BDO, portion of RCBC and BPI are secured with AFS investments with equal amount of the loan outstanding balance (see Note 10). The said loans with annual interest rates ranging from 3.50% to 4.25% have maturities within one year.

Portion of the loan with RCBC amounting to P150.0 million is secured with certain Bank's properties (see Note 13). The loan has annual interest rate of 3.75%.

Interest expense on bills payable amounted to P98.2 million and P64.1 million in 2013 and 2012, respectively, and is presented as Interest Expense on Bills Payable in the statements of profit or loss.

19. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Notes		2013		2012 (As Restated - see Note 3.2)
Accounts payable		P	**146,881,683**	P	136,241,888
Accrued expenses	23.1		**96,789,300**		97,872,670
Post-employment defined benefit obligation	23.2		**64,469,976**		-
Manager's check			**59,145,716**		55,220,760
Bills purchased			**25,852,186**		24,741,029
Withholding tax payable			**21,176,345**		16,501,243
Unearned income			**3,360,927**		10,930,759
Deferred credits			**-**		5,482,376
Other payables			**4,662,879**		4,672,472
		P	**422,339,012**	P	351,663,197

Accrued expenses include administrative expenses that remain unpaid at the end of the year and accrued interest expenses related to the Bank's deposit liabilities.

20. EQUITY

20.1 Capital Stock

Capital stock consists of:

		Shares			Amount		
	Note	2013	2012		2013		2012
Preferred stock – P10 par value							
Authorized – 30,000,000 shares							
Issued and outstanding		**20,560**	20,560	**P**	**205,600**	P	205,600
Common stock – P10 par value							
Authorized – 550,000,000 shares							
Issued and outstanding							
Balance at beginning of year		**183,727,300**	145,141,861		**1,837,273,000**		1,451,418,610
Issued during the year	20.2, 20.3	**1,702,537**	85,439		**17,025,370**		854,390
Stock dividends		**35,700,000**	38,500,000		**357,000,000**		385,000,000
Balance at end of year		**221,129,837**	183,727,300		**2,211,298,370**		1,837,273,000
				P	**2,211,503,970**	P	1,837,478,600

The preferred shares have the following rights, preferences, conditions and limitations:

(a) Preferred stock shall be issued only against government investment in the capital stock of the Bank. Preferred stock so issued shall have preference over common stock in the assets of the Bank in the event of liquidation'

(b) Preferred stock shall be non-voting but in case of sale by the government of its preferred stock to private shareholders, such stock are converted into common with voting rights upon approval of the corresponding amendment of the Articles of Incorporation by the SEC, thereby reducing the number of outstanding common stocks.

(c) Preferred stock shall share in dividend distribution at two per centum thereof without preference. The amount of any dividends payable to any of stock may be applied to the repayment of the stockholders indebtedness to the Bank.

20.2 Other Reserves and Dividend Declaration

On May 17, 2013, the BSP approved the stock and cash dividend declaration of the Bank to stockholders of record as of February 28, 2013. Stock dividends in the amount of P357.0 million to all stockholders of common stock, in proportion to their respective stockholdings, and cash dividend of 2.00% to all stockholders of Government Preferred Shares as of the aforementioned date of record were declared out of the available surplus funds.

On March 20, 2012, the BSP has approved another declaration and distribution of stock dividends to be applied against the Other Reserves account amounting to P155.0 million payable to common stockholders of record as of February 29, 2012, and cash dividends of 2.00% to all preferred shareholders as of February 29, 2012. The BSP has approved the stock dividend declaration of the Bank on May 21, 2012. Accordingly, the stock dividend declaration was also recorded in the financial statements in 2012 upon receipt of the BSP approval.

On January 6, 2012, the BSP has approved the stock dividend declaration of the Bank to be applied against the Other Reserves account amounting to P230.0 million payable to common stockholders of record as of September 30, 2011, and cash dividends of 2.00% to all preferred shareholders as of September 30, 2011. Accordingly, the stock and cash dividend declaration was recorded in the financial statements in 2012 upon receipt of the BSP approval.

On September 1, 2011, the Bank issued 145.1 million common shares and 20.6 thousand preferred shares amounting to P1,451.4 million and P0.2 million, respectively, in exchange of the net assets of ONRBI and RBNCI amounting to P2,129.3 million, resulting in the recognition of Other Reserves of P677.6 million in 2011 (see Note 1).

A portion of the Bank's surplus corresponding to the accumulated balance of deferred income tax as at December 31, 2013 is not available for dividend declaration until realized (received) as dividends by the Bank.

20.3 Merger with RBSEI

The Bank issued P17.0 million shares to the stockholders of RBSEI in consideration of its net assets upon the execution of merger on May 16, 2013 (see Note 2). The excess of the value of the shares issued was recorded as goodwill presented as part of Prepayments and Other Resources in the 2013 statement of financial position (see Note 15).

20.4 Capital Management Objectives, Policies and Procedures

BSP, as the Bank's lead regulator, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excluding:

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations to DOSRI;
(c) deferred tax asset or liability;
(d) goodwill;
(e) sinking fund for redemption of redeemable preferred shares; and,
(f) other regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the MB of the BSP.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The Bank's policy is to maintain a strong capital base to maintain stockholders, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects.

As at December 31, 2013 and 2012, the Bank is in compliance with the minimum capital-to-risk assets ratio. The capital-to-risk assets ratio of the Bank as at December 31, 2013 and 2012 is 18.16% and 17.66%, respectively (see Note 27).

There have been no material changes in the Bank's management of capital during the year.

21. RELATED PARTY TRANSACTIONS

The Bank's related parties include its DOSRI as described on the next page. None of the transactions incorporates special terms and conditions and no guarantee was given or received. Outstanding balances are usually settled in cash.

		Amount of Transactions		Outstanding Balance	
Related Party Category	Notes	2013	2012	2013	2012
Directors					
Deposits	17, 21.1	P **122,924,128**	(P 14,826,972)	P **124,643,481**	P 1,719,353
Officers					
Loans	12, 21.1	**70,000**	(218,600)	**70,000**	-
Deposits	17, 21.1	**(852,418)**	(1,249,723)	**1,175,638**	2,028,056
Stockholders					
Loans	12, 21.1	**(752,480)**	(6,248,094)	**6,061,928**	6,814,408
Deposits	17, 21.1	**549,090,265**	-	**549,508,693**	418,428
Rental	21.3	**4,026,180**	1,124,726	**-**	-
Related parties under common ownership					
Loans	12, 21.1	**(120,583,451)**	(117,311,669)	**12,363,979**	132,947,430
Deposits	17, 21.1	**614,462,386**	2,653,525,884	**4,680,052,629**	4,065,590,243
Interest income on loans					
DOSRI	21.1	**5,387,203**	10,946,409	**-**	-
Interest expense on deposits					
DOSRI	21.1	**163,319,485**	117,785,366	**-**	-
Compensation and employee benefits					
Key management personnel	21.2	**11,809,513**	10,120,125	**-**	-

21.1 Loans and Deposits

In the ordinary course of business, the Bank has loan and deposit transactions with DOSRI. Under the Bank's policy, these loans and other transactions are made substantially on the same terms and conditions as with other individuals and businesses of comparable risks.

Under the General Banking Act and BSP regulations, the amount of direct credit accommodations to each of the Bank's directors, officers and stockholders, of which 70.00% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank.

In addition, the aggregate DOSRI loans generally should not exceed the Bank's capital funds or 15.00% of the Bank's loan portfolio, whichever is lower. As at December 31, 2013 and 2012, the Bank is in compliance with these regulations (see Note 12). Total deposits from DOSRI has outstanding balance of P5,355.4 million and P4,069.8 million as at December 31, 2013 and 2012, respectively (see Note 17).

The following additional information is presented relative to DOSRI loans:

	2013	2012
Total DOSRI loans	P **18,495,907**	P 139,761,838
Total unsecured loans	**-**	-
% of DOSRI loans to total loan portfolio	**0.00%**	0.96%
% of past-due DOSRI loans to total DOSRI loans	**0.00%**	0.00%
% of unsecured DOSRI loans to total DOSRI loans	**0.00%**	0.00%
% of non-performing DOSRI loans to total DOSRI loans	**0.00%**	0.00%

21.2 Key Management Personnel Compensations

The compensations of key management personnel are broken down as follows:

	Notes	2013	2012
Salaries and wages		P **9,317,331**	P 7,834,390
Benefits		**2,492,182**	2,285,735
	23.1	P **11,809,513**	P 10,120,125

These are presented as part of Compensation and Employee Benefits in the statements of profit or loss.

21.3 Rental

Starting 2012, the Bank is a lessee under a non-cancellable lease agreement with a stockholder pertaining to the lease of office space, with a lease term of ten years and an escalation rate of 5.00% at the start of the second year. Total amount of rent expense in 2013 and 2012 amounted to P4.0 million and P1.1 million, respectively, presented as part of Occupancy and Equipment Related Expenses under Other Expenses in the statements of profit or loss. There is no outstanding liability as at December 31, 2013 and 2012.

22. OTHER INCOME

This account is composed of the following:

	Notes	2013	2012
Gain from disposal of AFS investments	10	**P 38,624,547**	P 61,972,476
Income from disposal of:			
Bank premises, furniture, fixtures and equipment	13	**1,925,132**	355,062
Investment properties	14	**264,392**	1,882,321
Rental income		**412,355**	378,627
Recovery from accounts written off		**84,099**	123,799
Miscellaneous		**11,971,685**	8,604,423
		P 53,282,210	P 73,316,708

Miscellaneous income pertains to peradala and utility bills payment charges, sale of automated teller machine jackets and lost passbook replacement fees.

23. EMPLOYEE BENEFITS

23.1 Compensation and Employee Benefits

Expenses recognized for compensation and employee benefits are presented below.

	Notes	2013	2012 (As Restated - see Note 3.2)
Short-term employee benefits		**P 413,093,836**	P 339,931,872
Post-employment defined benefit	23.2	**40,744,276**	32,718,972
		P 453,838,112	P 372,650,844

Outstanding short-term employee benefits amounting to P4.1 million and P6.9 million as at December 31, 2013 and 2012 are included as part of accrued expenses under Accrued Expenses and Other Liabilities in the statements of financial position (see Note 19).

23.2 Post-employment Defined Benefit Plan

(a) *Characteristics of the Defined Benefit Plan* – The Bank maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Bank. The trustee bank managed the fund in coordination with the Bank's Retirement Plan Committee who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provides for an early retirement at age 50 with a minimum of 15 years of credited service and late retirement after age 60 but not beyond age 65, both subject to the approval of the Bank's Board. Normal retirement benefit is an amount equivalent to 150.00% of plan salary for every year of credited service. The normal and late retirement benefits shall be computed in accordance with the retirement benefit formula as of normal or late retirement date.

(b) *Explanation of Amounts Presented in the Financial Statements* – Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2013 including the comparative year which has been restated in line with the adoption of PAS 19 (Revised), see Note 3.2(a)(ii).

The amounts of post-employment defined benefit obligation (asset) recognized in the statements of financial position (see Notes 15 and 19) are determined as follows:

	2013	2012 (As Restated - see Note 3.2)
Present value of the obligation	**P 417,308,340**	P 322,632,563
Fair value of plan assets	**(352,838,364)**	(353,689,872)
Effect of the asset ceiling	**-**	1,652,548
	P 64,469,976	P 29,404,761

The movements in the present value of the post-employment defined benefit obligation are as follows:

	2013	2012 (As Restated - see Note 3.2)
Balance at beginning of year	**P 322,632,563**	P 230,626,442
Current service cost	**40,744,276**	29,819,365
Interest expense	**18,131,950**	14,506,403
Remeasurements:		
Actuarial losses arising from:		
Changes in financial assumptions	**19,636,952**	31,890,587
Experience adjustments	**61,334,073**	30,874,812
Benefits paid	**(45,171,474)**	(17,984,653)
Past service cost	**-**	2,899,607
Balance at end of year	**P 417,308,340**	P 322,632,563

The movements in the fair value of plan assets are presented below.

	2013	2012 (As Restated - see Note 3.2)
Balance at beginning of year	**P 353,689,872**	P 261,774,657
Interest income	**20,474,297**	17,498,549
Return on plan assets (excluding amounts included in net interest)	**(42,568,713)**	41,573,310
Contributions to the plan	**66,414,382**	50,828,009
Benefits paid	**(45,171,474)**	(17,984,653)
Balance at end of year	**P 352,838,364**	P 353,689,872

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	2013	2012 (As Restated - see Note 3.2)
Cash and cash equivalents	**P 43,215,095**	P 42,915,164
Quoted equity securities	**128,699,399**	121,125,321
Government securities	**129,166,614**	147,139,378
Corporate bonds (rated AA and above)	**49,247,320**	40,029,182
Dividends and interest receivables	**2,509,936**	2,480,827
	P 352,838,364	P 353,689,872

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The plan assets incurred a negative return of P22.1 million in 2013 and earned a return of P59.1 million in 2012.

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are presented below:

		2013		2012 (As Restated - see Note 3.2)
Reported in profit or loss:				
Current service cost	P	**40,744,276**	P	29,819,365
Net interest income	(	**2,249,474)**	(	2,871,550)
Past service cost		**-**		2,899,607
	P	**38,494,802**	P	29,847,422
Reported in other comprehensive income (loss):				
Actuarial losses arising from:				
Changes in financial assumptions	(P	**19,636,952)**	(P	31,890,587)
Experience adjustments	(	**61,334,073)**	(	30,874,812)
Changes in the effect of the asset ceiling		**1,745,421**		385,313
Return on plan assets (excluding amounts included in net interest income)	(	**42,568,713)**	(	41,573,310)
	P	**121,794,317**	(P	20,806,776)

Current service cost and past service cost are allocated and presented in the statements of profit or loss presented as part of Compensation and Employee Benefits under Other Expenses (see Note 23.1). Net interest income on post-employment defined benefit plan is presented under Interest Income in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2013	2012
Discount rates	**5.32%**	5.62%
Expected rate of salary increases	**10.00%**	10.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 30.6 for both male and female. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon bond government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan* – The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk, as presented on the next page.

(i) Investment and Interest Rate Risks – The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan has relatively balanced investment in cash and cash equivalents, equity securities and debt securities. Due to the long-term nature of the plan obligation, a level of continuing equity and debt investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks – The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) *Other information* – The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) Sensitivity Analysis – The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as at December 31, 2013:

	Impact on Post-employment Benefit Obligation				
	Change in assumption		Increase in assumption		Decrease in assumption
Discount rate	+/- 1.00%	P	74,380,686	(P	61,300,055)
Salary growth rate	+/- 1.00%		65,946,386	(	56,238,159)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies – The retirement plan trustee has no specific matching strategy between the plan assets and the plan liabilities.

(iii) Funding Arrangements and Expected Contributions – The Bank is not required to pre-fund the future defined benefit payable under the retirement plan before they become due. For this reason, the amount and timing of contributions to the retirement fund are at the Bank's discretion. However, in the event a benefit claim arises and the retirement fund is insufficient to pay the claim, the shortfall will then be due and payable from the Bank to the retirement fund.

The plan is currently underfunded by P64.5 million based on the latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 20 years' time when a significant number of employees is expected to retire.

The Bank expects to make contribution of P48.3 million to the plan during the next financial year.

The maturity profile of undiscounted expected benefit payments from the plan for the next ten years, as at December 31, 2013 follows:

Within one year	P	-
More than one year to five years		19,861,199
More than five years to ten years		54,405,867
	P	**74,267,066**

The weighted average duration of the defined benefit obligation at the end of the reporting period is 19.4 years.

24. CURRENT AND DEFERRED TAXES

The components of tax expense as reported in profit or loss are as follows:

		2013		2012 (As Restated - see Note 3.2)
Reported in profit or loss:				
Current tax expense:				
Regular corporate income tax (RCIT) at 30%	**P**	**212,532,616**	P	157,415,059
Final tax at 20%		**26,572,347**		27,440,180
		239,104,963		184,855,239
Deferred tax expense:				
Deferred tax expense relating to origination and reversal of temporary differences		**50,092,566**		39,892,556
	P	**289,197,529**	P	224,747,795
Reported in other comprehensive loss (income):				
Deferred tax income relating to origination and reversal of temporary difference	**P**	**36,538,295**	P	6,242,033

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in profit or loss is as follows:

		2013		2012 (As Restated - see Note 3.2)
Tax on pretax profit at 30.00%	P	**299,601,214**	P	237,914,663
Adjustment for profit subjected to lower income tax rate	(	**11,321,188)**	(	13,171,296)
Tax effects of:				
Non-deductible interest expense		**12,504,867**		13,608,127
Non-taxable gain from disposal of AFS investments with maturity of more than five years	(	**11,587,364)**	(	22,756,216)
Non-deductible penalties		**-**		9,152,517
Tax expense	P	**289,197,529**	P	224,747,795

The net deferred tax assets relate to the following as at December 31, 2013 and 2012:

	Statements of Financial Position		Profit or Loss		Other Comprehensive Income	
	2013	2012 (As Restated - see Note 3.2)	2013	2012 (As Restated - see Note 3.2)	2013	2012 (As Restated - see Note 3.2)
Deferred tax assets:						
Allowance for impairment	P **184,993,253**	P 179,732,812	P **1,661,358**	P 39,999,267	P **-**	P -
Post-employment defined benefit obligation	**38,810,285**	4,274,992	(**2,003,002)**	(1,536,527)	**36,538,295**	6,242,033
Provision for contingencies	**870,900**	870,900	**-**	-	**-**	-
Unamortized past service cost	**842,953**	4,916,779	(**4,073,826)**	(3,646,090)	**-**	-
	225,517,391	189,795,483	(**4,415,470)**	34,816,650	**36,538,295**	6,242,033
Deferred tax liability:						
Accrual of effective interest income	(**120,386,303)**	(74,709,207)	(**45,677,096)**	(74.709,206)	**-**	-
Deferred tax assets - net	P **105,131,088**	P 115,086,276				
Deferred tax income (expense)			(P **50,092,566)**	(P 39,892,556)	P **36,538,295**	6,242,033

Upon execution of the merger with RBSEI, deferred tax assets on allowance for impairment losses on loans receivable amounting to P3.6 million was transferred to the Bank (see Note 2).

25. EARNINGS PER SHARE

EPS amounts are computed as follows:

		2013		2012 (As Restated - see Note 3.2)
a. Net profit attributable to common shares	P	**709,473,185**	P	568,301,081
b. Net profit attributable to common shares and potential common shares		**709,473,185**		568,301,081
c. Weighted average number of outstanding common shares		**220,349,488**		219,413,016
d. Weighted average number of outstanding common shares and potential shares		**220,349,488**		219,413,016
Earnings per share				
Basic (a/c)	P	**3.22**	P	2.59
Diluted (b/d)	P	**3.22**	P	2.59

The 2012 basic and diluted EPS were restated to account for the restatement of net income due to the effects of PAS 19 (Revised) and to account for the issuance of stock dividends in 2013 [see Note 3.2(a)(ii)]. PAS 33, Earnings per Share, requires to treat stock dividends issued as if it occurred at the beginning of 2012, the earliest period presented for EPS computation.

26. QUANTITATIVE INDICATORS FINANCIAL PERFORMANCE

The following are the basic financial performance ratios as of and for the years ended December 31, 2013 and 2012:

	2013	2012 (As Restated - see Note 3.2)
Return on average equity	**20.94%**	20.41%
Return on average assets	**3.09%**	3.18%
Net interest margin	**7.01%**	7.97%

27. CAPITAL MANAGEMENT

BSP, which governs and regulates the Bank's operation, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a minimum capital amount and a prescribed ratio of qualifying capital to risk-weighted assets or the capital adequacy ratio (CAR).

Risk-weighted assets is the sum of credit risk, market risks, and operational risks, computed based on BSP-prescribed formula provided under its circulars.

On January 1, 2012, BSP Circular 688 dated May 26, 2010 took effect containing the revised risk-based adequacy framework for stand-alone thrift banks, rural banks and cooperative banks which is based on Basel 1.5 wherein CAR shall not be less than 10% of the qualifying capital to risk-weighted assets.

In computing the CAR, the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital, and (ii) Tier 2 Capital; less deductions from the Total Tier 1 and Tier 2 as provided in BSP Circular 688.

The Bank's regulatory capital position as at December 31, 2013 and 2012 follow is presented below (in thousands).

		2013		2012 (As Restated - see Note 3.2)
Tier 1 capital	P	**3,470,877**	P	2,736,165
Tier 2 capital		**185,596**		224,614
Total regulatory capital		**3,656,473**		2,960,779
Total qualifying capital		**3,656,473**		2,960,779
Risk-weighted assets		**20,132,127**		16,768,685
Capital ratios:				
Total regulatory capital expressed as a percentage of total risk-weighted assets		**18.16%**		17.66%
Total Tier 1 capital expressed as a percentage of total risk weighted assets		**17.24%**		16.32%

28. COMMITMENTS AND CONTINGENCIES

28.1 Operating Lease Commitments – Bank as Lessee

The Bank is a lessee under non-cancellable operating lease agreements covering offices and certain branches. The leases have terms ranging from 1 to 25 years, with renewal options, and include annual escalation rates ranging from 3.00% to 10.00%. Rent expense amounted to P20.1 million and P17.0 million in 2013 and 2012, respectively, and is presented as part of the Occupancy and Equipment Related Expenses account under Other Expenses in statements of profit or loss. The future minimum rentals payable under these non-cancellable operating leases are shown below.

		2013		2012
Within one year	P	**9,262,687**	P	14,459,382
After one year but not more than five years		**18,524,495**		29,986,890
More than five years		**8,247,289**		25,187,494
	P	**36,034,471**	P	69,633,766

28.2 Contingencies

There are contingent liabilities such as litigations and claims that arise in the normal course of the Bank's operations which are not reflected in the Bank's financial statements. The Bank's management is of the opinion that losses, if any, as at December 31, 2013 and 2012, from these claims will not have any material effect on the Bank's financial statements.

29. SUPPLEMENTAL INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and in the succeeding pages is the supplementary information which is required by the BIR under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

29.1 Requirements under Revenue Regulations (RR) 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 are as follows:

(a) *Gross Receipts Tax* – In lieu of the value-added tax, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Section 121.2 of the Tax Code.

During 2013, the Bank opted to pay under protest GRT amounting P141,746,111. The amount is presented as part of Taxes and Licenses under Operating Expenses in 2013 statement of profit or loss [see Note 29.1(e)].

(b) *Taxes on Importation* – The Bank does not have any landed cost, customs duties and tariff fees in 2013 since it does not have any importation during the year.

(c) *Excise Tax* – The Bank did not have any transactions in 2013 which are subject to excise tax.

(d) *Documentary Stamp Tax* – In general, the Bank's documentary stamp tax (DST) transactions arise from the execution of debt instruments and issuance of new shares.

For the year ended December 31, 2013, DST amounted to P17,637,129 representing documentary stamps imposed on debt instruments executed during the period and issuance of shares of stock amounted to P1,870,127.

On the other hand, the DST amounting to P75,149,907 pertaining to the Bank's loan releases and time deposits openings are shouldered by its corresponding borrowers and depositors, respectively. However, the remittance is done by the Bank. Total DST remittances for the year ended December 31, 2013 amounted to P111,999,165. The DST amounting to P36,849,258 was shouldered by the Bank.

The total amount of DST amounting to P56,356,514 shouldered by the Bank are recorded as an expense and is included in the taxes and licenses account under Other Expense in the 2013 statement of profit of loss [see Note 29.1(e)].

(e) *Taxes and Licenses* – The details of taxes and licenses for the year ended December 31, 2013 are as follows:

	Note		
GRT	29.1*(a)*	P	141,746,111
Documentary stamp tax	29.1*(d)*		56,356,514
Business permit			13,681,487
Real property tax			5,329,109
Miscellaneous			932,794
		P	**218,046,015**

The amount of taxes and licenses are included as part of Other Expenses in the 2013 statement of profit or loss.

(f) *Withholding Taxes* – The details of total withholding taxes for the year ended December 31, 2013 are shown below.

Final	P	52,390,116
Compensation and employee benefits		43,282,638
Expanded		11,324,284
	P	**106,997,038**

(g) *Deficiency Tax Assessments and Tax Cases* – As at December 31, 2013, the Bank does not have any final deficiency tax assessment from the BIR. However, the Bank has pending tax cases for the taxable years 2013, 2012 and for the short period September 1, 2013 to December 31, 2011.

In 2013, the Bank paid deficiency taxes for the taxable period 2009 and short period September 1, 2011 to December 31, 2011 amounting to P92,289,000 of which P61,559,598 pertains to GRT, which the Bank filed petition for refund. The amount booked under accounts receivable presented as part of Loans and Receivables in the statements of financial position (see Note 12). Further, the Bank also filed petition for refund of GRT paid amounting to P141,746,111 and P152,511,746 for the taxable periods 2013 and 2012, respectively.

29.2 Requirements under RR 19-2011

RR 19-2011 requires schedules of taxable revenues and other non-operating income, cost of sales and services, itemized deductions and other significant tax information, to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below and in the succeeding page are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts reflected in the 2013 statement of comprehensive income.

(a) *Taxable Revenues* – The composition of Bank's taxable revenues subject to regular tax rate for the year ended December 31, 2013 represents interest income amounting to P1,555,800,672.

(b) *Deductible Cost of Services* – Deductible cost of services which are under the regular tax rate for year ended December 31, 2013 comprise the following:

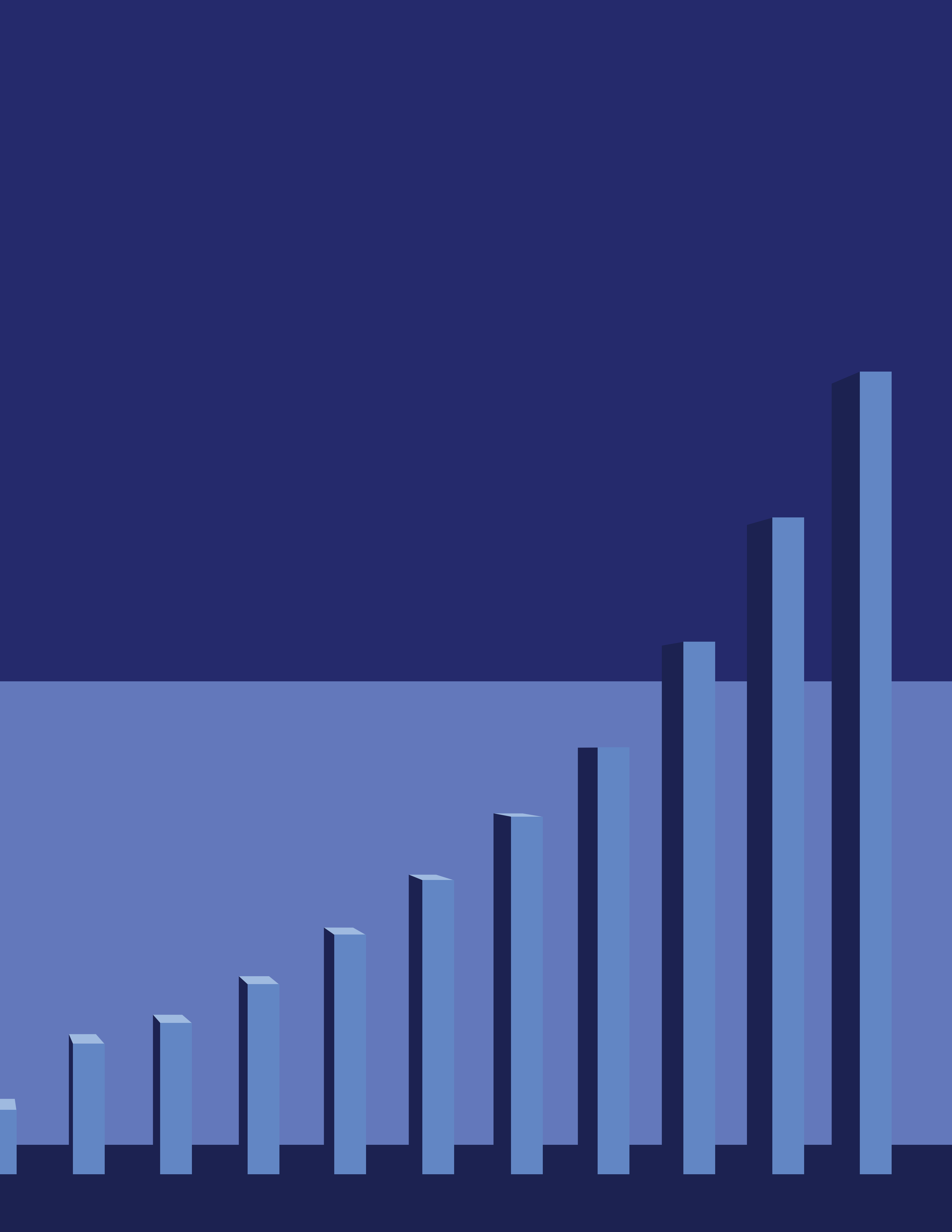
Interest expense	P	404,273,637
Salaries and employee benefits		260,573,753
PDIC insurance		32,530,064
BSP supervision fee		3,924,343
	P	**701,301,797**

(c) *Taxable Non-operating and Other Income* – The details of taxable non-operating and other income in 2013 which are subject to regular tax rate are shown below.

Service charges, fees and commission	P	934,867,538
Others		36,940,892
	P	**971,808,430**

(d) *Itemized Deductions* – The amounts of itemized deductions for the year ended December 31, 2013 under the regular tax rate are as follows:

Taxes and licenses	P	218,046,015
Salaries and allowances		130,911,160
Depreciation		117,194,527
Transportation and travel		98,887,001
Security, messengerial and janitorial services		85,148,837
SSS, GSIS, PHIC, HDMF and other contributions		75,611,461
Insurance		66,753,445
Communication, light and water		62,777,512
Office supplies		52,812,284
Service charge		45,570,986
Repairs and maintenance		34,403,426
Fuel and oil		31,010,484
Rental		20,080,342
Information technology		15,722,959
Management and Consultancy		8,563,574
Banking fees		5,649,139
Advertising		4,522,652
Representation and entertainment		3,830,180
Director fees		2,374,177
Bad debts		1,645,984
Miscellaneous		36,349,108
	P	**1,117,865,253**



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