



AUB
ASIA UNITED BANK

**PUSHING
INNOVATION**

**ANNUAL
REPORT
2013**

OUR VISION

We are committed to be the bank of choice, known for financial strength and superior delivery of innovative products and services, driven towards total customer satisfaction.

We shall be guided by our chosen corporate values of Commitment, Integrity, Excellence, Leadership, and Teamwork in:

- Developing long-term partnerships with clients through the delivery of responsive, innovative, and value-added products and services;
- Providing delivery channels that are relevant to our market to ensure convenience and increase the bank's accessibility;
- Creating an employee work environment that fosters mutual respect, provides professional and personal growth, encourages creativity, and is receptive to change, and is meritocratic; and
- Ensuring optimum returns for our stockholders, suppliers, and business partners.

OUR MISSION

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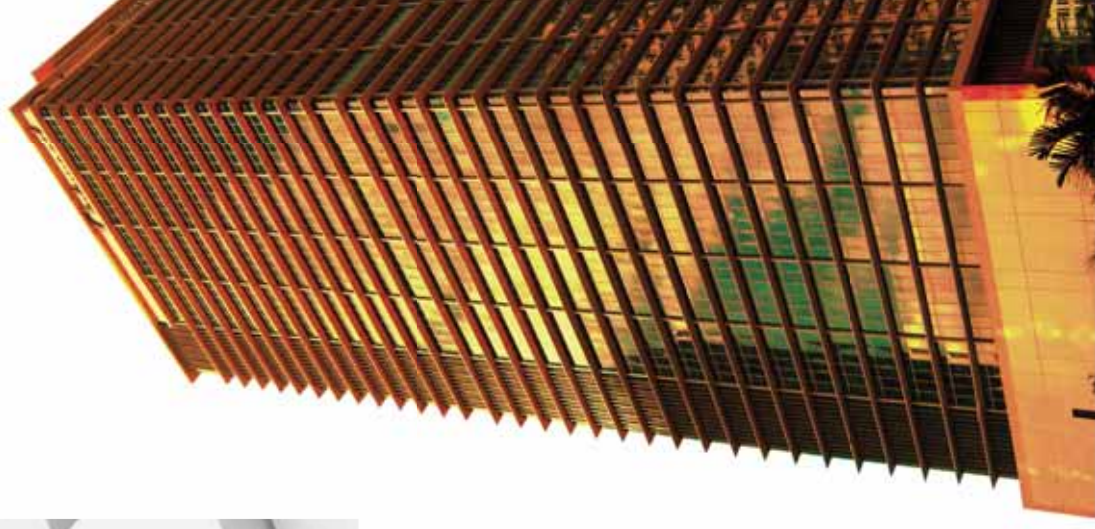
Asia United Bank (AUB) is among the very few Philippine commercial banks granted a full-branch license in 1997 and operating until this day. In a span of more than 15 years, AUB has become one of the fastest-growing commercial banks in the country.

In 2013, AUB became the Philippines' newest universal bank after obtaining approval from the Bangko Sentral ng Pilipinas (BSP). The universal banking license enables AUB to expand further its consumer lending and offer other banking services, including engaging in investment banking activities.

On May 17, 2013, AUB held an initial public offering (IPO) of 88 million shares to comply with the BSP's requirement for unibanks. Proceeds from the IPO, to the tune of Php7.46 billion, went to support its aggressive branch expansion, improvement of its information technology infrastructure, and other general-purpose activities.

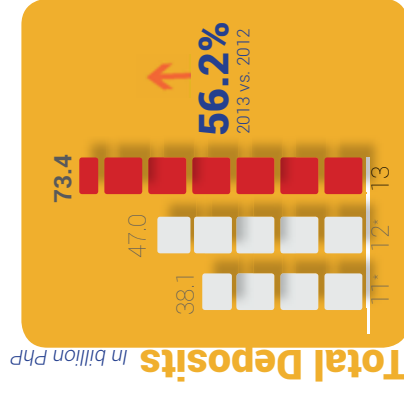
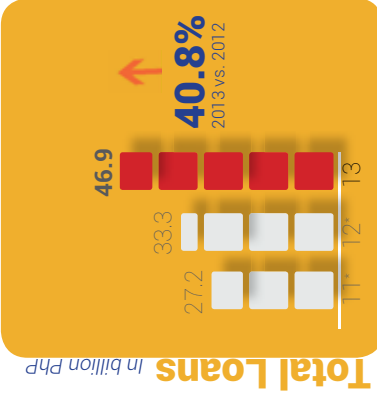
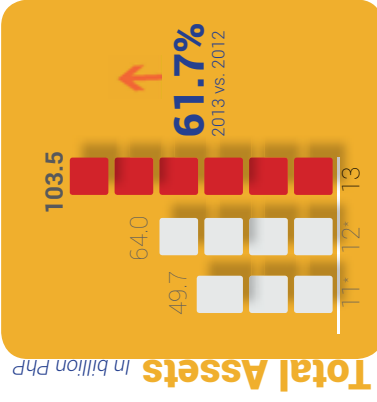
AUB expanded its presence to 178 branches nationwide as of end-2013. This includes additional branches from its acquisitions of Asiatic Development Bank; the Rural Bank of Angeles (RBA) in Angeles City, Pampanga; and the Cooperative Bank of Cavite (now known as Cavite United Rural Bank). In 2013, RBA acquired the banking business of the Cooperative Bank of Pampanga (CBP), which had 204 member cooperatives in various locations, including Pampanga, Cabanatuan and Davao.

AUB is owned by a group of Asian investors engaged in property development, manufacturing, and other equity ventures. Republic Biscuit Corporation (Rebisco), the Philippines' leading manufacturer, distributor, and exporter of snack food products for more than 50 years, is the biggest shareholder of the bank.



FINANCIAL HIGHLIGHTS

Parent Company

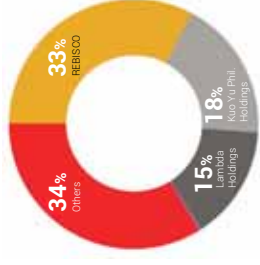


* Restated based on the latest audited financial statements

FACTS BOX

OWNERSHIP*

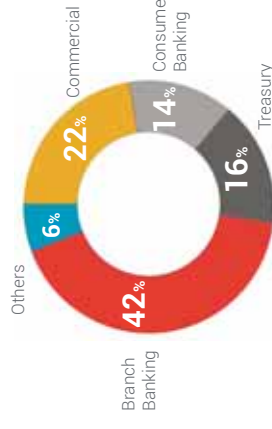
Percentage of Total Issued and Outstanding Shares



* As of April 30, 2014

BUSINESS SEGMENTS

Contribution to 2013 Operating Income in Percent



DELIVERY CHANNELS



NETWORK



WORKFORCE



MESSAGE TO OUR SHAREHOLDERS



2013 was another year of milestone for Asia United Bank. Not only were we able to post strong performance and sustained engagement with our customers and partners, we have also joined the league of Philippine banks that have become publicly listed and acquired universal banking status.

For a bank that first opened its doors to the public at the height of the East Asian financial crisis nearly 17 years ago, we take great pride in what we have so far achieved. We are also honored that more customers have placed their trust in us, and we are pleased that, through their loyal patronage, AUB continues to enjoy solid financial results.

OUR FINANCIAL PERFORMANCE

In 2013, our net income grew by 3 percent to Php1.5 billion which we largely attribute to increased loan bookings, coupled with some gains from the sale of foreclosed properties. Our net profit translated to a return on equity of 10 percent.

A more intensified deposit-generation campaign and an increase in the number of our branches raised deposits by 56 percent to Php74 billion in 2013 from Php47 billion the previous year. In step with our plan to double our branch network by 2015, AUB opened 56 branches in 2013: 18 in Metro Manila and 38 in the provinces. We now have 163 branches nationwide.

MOVING FORWARD

Our consistent performance and strong financial position enabled us to remain a reliable partner to businesses and individuals. In 2013, our corporate and consumer loan portfolios rose by 45 percent and 36 percent, respectively.

As a result, our net interest earnings grew by 55 percent to Php2.9 billion from a year ago, as our loan portfolio reached Php51 billion.

ECONOMIC BACKDROP

While some Philippine banks consider it a tougher business environment nowadays because of the low interest rates, which touched a historic low, we at AUB continue to have a positive view of the market.

There is much reason for optimism: the Philippines remains a bright spot in Asia. Our country's GDP rose 7.2 percent in 2013 from 6.8 percent in the previous year.

What made our economic performance doubly phenomenal was that it was made against the backdrop of uncertainty. In addition to investor jitters over the U.S. Federal Reserve's monetary tapering, the uncertain times also pervaded right in our own soil.

While we started 2013 on a positive note due to the series of investment-grade credit ratings the Philippines notched, the fourth quarter was peppered with a series of man-made and natural disasters. There was the extremists' siege that displaced many residents in Zamboanga; a magnitude 7.2 earthquake that rocked Cebu and Bohol; and Super Typhoon Yolanda (international name: Haiyan), which brought the strongest win ever recorded in history and destroyed many areas in the Visayas.

Once again, remittances from overseas Filipino workers and revenues from the business process outsourcing industry became our economic saving grace. They fed into consumer spending, and caused a boom in the retail, real estate, tourism, banking, and other sectors.

While we expect the challenging market environment we faced in 2013 to persist with interest rates staying low, spreads thinning, and competition intensifying, we still share the belief that we are on the cusp of a good cycle of growth.

AUB will stay focused on catering to our chosen markets. And while the low interest rate regime and competition may already become mainstays in our business, they should not deter us from pursuing our focus on growing our core business.

People and businesses have relied on AUB as a sound institution to entrust their assets with. We are pleased that this trust continues today, as we now open a new chapter in our corporate history as a publicly listed universal bank.

Enduring client relationships are the cornerstone of AUB, and we will continue to build on our reputation as an innovative bank that puts customers at the heart of our business. These two will always differentiate us from our competitors. And this is why we have kept our dedication to customers as the foundation of our long-term strategic initiatives.

We will continue to invest in new branches, advanced technology and innovative products all designed to enhance the convenience and effectiveness of our service delivery. Our strategic initiatives aim to deliver high-level customer service across all channels and allow us to continue to deepen customer relationships.

We are excited about the future and appreciate the opportunity to succeed with our clients and partners. We look forward to prospering together in 2014 and beyond. Thank you for your continued trust, and may you always feel good to be with AUB.

JACINTO L. NG, SR.
Chairman

ABRAHAM T. CO
President

OPERATIONAL HIGHLIGHTS



BRANCH BANKING

Description

Our branches are where our customers turn for checking and savings accounts, consumer loans, lines of credit, auto leasing, and other financing needs, as well as avail of products for small and medium-sized businesses, including cash management. Branches serve as an excellent starting point for customers within our footprint to begin to build a deep and lasting relationship with AUB.

Strategy

In 2013, we continued to grow our network presence to 163 branches and more than 60 ATMs. This includes the branches of our two subsidiaries: Rural Bank of Angeles, which has 13 branches and five Micro Banking offices in Northern Luzon; and Cavite United Rural Bank, which has five branches in southern Luzon.

In step with our branch network expansion, AUB continued to mount an aggressive client acquisition campaign through our Field Service Officers (FSO) program. Through this program, we were able to build new relationships with our customers, as well as deepen their understanding and appreciation of our products.

From plain-vanilla deposit products, FSOs help our clients utilize more advanced payment platforms, cash management, wealth management, and asset acquisition services.

The FSO Development Program (FSODP) also serves as a good training ground for future Branch Managers, as well as a viable career path towards officership for aspiring and qualified AUB rank-and-file personnel. In 2013, there were three FSOs who became Branch Managers, six who are undergoing Branch Manager Development Program, and 12 who became full-fledged FSOs.

CASH MANAGEMENT

Description

What used to be the exclusive enclave of corporates and major domestic and foreign commercial banks has been made available to the middle market and small and medium enterprises (SMEs) through the AUB Business Kit (BizKit). This all-in-one Cash Management Solution was designed to simplify business processes and maximize profits.

Whether you want to enhance cash flow, maintain liquidity, or find new ways to streamline cash management, the AUB BizKit offers a full range of innovative solutions to meet your needs.

From management and reporting to collections and payments, the AUB BizKit lets you efficiently control your incoming and outgoing cash flows through an extensive range of electronic services.

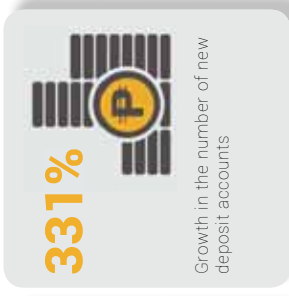
Strategy

2013 marked the eighth year since AUB pioneered a cutting-edge, all-in-one cash management tool called BizKit that offers cash management products and services to corporates and entrepreneurs.

True to the spirit of continuous innovation, we continue to enhance our cash management systems, not only to be competitive with other banks, but also to deliver the best service and satisfy the needs of our clients.

In 2014, AUB plans to launch an improved version of AUB BizKit that will complement features that make financial processing more convenient and cost-efficient for AUB clients.

Current features are the: HR Information System module (employee database for job applications, payroll processing, among others), CheckBanker (monitoring postdated checks), CheckMaker (securing negotiated checks), SSS Remitter (making online payment to SSS), Balance Checker (reconciling bank balance), and E-Banker (fully secured internet banking).



OPERATIONAL HIGHLIGHTS

TREASURY

Description

AUB is able to enhance its profitability by managing its proprietary business in fixed income and foreign exchange markets to support its overall investment strategy. Through our Treasury Department, the Bank also assesses and manages the risks inherent in its balance sheet.

Strategy

The early part of 2013 was characterized by low interest rates and tight credit spreads, a carryover of the asset rally in 2012. Emerging market (EM) debt was in vogue, brought about by loose monetary policies of the US and coupled by the high level of expected growth in emerging market countries.

In the local market, the series of credit rating upgrades on the Philippines sparked a bond rally. The Bangkok Sentral ng Pilipinas' decision to phase-out retail investor's access to its Special Deposit Accounts (SDA) also contributed to excess liquidity and a runup in the prices of government securities.

AUB was able to take advantage of these rallies by slowly taking profit on a major portion of its holdings. However, as the US Federal Reserve hinted that it intends to reduce the amount of liquidity it was injecting into the financial markets, emerging markets started taking a hit and investors shied away.

AUB increased the weight of its developed market investments as it expected growth to pick up in the second half of 2013. It also shifted to shorter maturities based on its view that interest rate volatility will persist.

From a funding perspective, the Bank was able to raise Php7.4 billion from its initial public offering. The proceeds were prudently placed with the BSP, pending expected loan availments. The Bank was also able to tap long-term funding through its maiden issuance of Long Term Negotiable Certificate of Deposits (LTNCD) during the latter part of 2013. This was strategically employed to fix the long-term funding cost at or near the bottom of the interest rate cycle as it expected interest rates to go up.



Php 1.5 billion

Gross interest income from Treasury-managed assets

Php 9.2 billion



Total assets under management



152%

Increase in UITF volume by end-2013 vs. 2012 level



TRUST BANKING

Description

AUB helps individual, business and institutional clients build their wealth through investing in trust products. From employee benefit trust, fund management to estate planning, AUB has investment advisors with specialized approach that acknowledges the financial needs, goals, expectations and risk appetite of clients.

Strategy

SDAs, which used to be considered as the safest haven for risk-averse investors, started filtering out when the BSP mandated the gradual phaseout of all retail investments until November 2013.

The policy benefited banks' unit investment trust funds (UITFs) and time deposits, as clients shifted to other vehicles to park their money. Funds parked in the BSP's SDA facility went down to Php1.3 trillion by end-2013 from Php2 trillion when the mandatory phase-out was announced in May 2013.

Taking advantage of opportunities from the BSP policy, we heavily promoted our UITF products through our branch networks and other referring units. We also started migrating our SDA investors to our high-performing UITFs as well.

We also launched a new UITF product, the AUB Peso Money Market Fund, which offers the same low-risk, high-yielding investment promise as the SDA.

As of end-2013, our UITF volume grew to Php1.16 billion, 152 percent higher than the Php460.0 million posted in 2012. This boosted our total assets under management to Php9.2 billion.

We expect our trust business to further expand as we embark on a branch incentive program in 2014. This will encourage our branches to market our UITFs more aggressively. We also plan to set up satellite offices in provincial areas to assist our branches in their sales efforts.

OPERATIONAL HIGHLIGHTS



INSTITUTIONAL BANKING

Description
Our institutional banking business covers lending to corporate and middle market accounts.

Strategy
As part of AUB's vision to become one of the top ten banks in the country, we established our presence as a financially capable and reliable institution by participating in several major corporate financing deals in 2013, including those in the power, infrastructure, shipping and related industries.

We also secured AUB's place among the major banks that participated in loan syndications for conglomerates, including those that involved private-public partnership projects that were bid out in 2013.



43.5%

Increase in institutional banking's loan portfolio in 2013

Major changes to the Institutional Banking Group's organizational structure also contributed to the growth. In 2013, we created another unit, hired new account officers, gained access to previously untapped clients, and expanded our capacity to process more new loan accounts.



49%

Increase in consumer loan volume in 2013



CONSUMER BANKING

Description

AUB offers various retail banking products and services through its network of 163 branches nationwide. A thorough understanding of customer needs has helped us to successfully develop flexible and customized products.

Strategy

In 2013, AUB continued to expand its consumer banking channels and further took advantage of its expanding branch network. Further seizing opportunities from the increase in consumer spending and OFW remittances, new loans extended by AUB grew by a hefty 49% from the previous year, as reflected in all our loan products.

Mirroring the country's real estate boom, loans to homebuyers accounted for the bulk of our new loans, even as we maintained a balanced exposure in both horizontal and vertical projects in selected market segments.

AUB also launched an automated credit scoring system initially for auto loans. This is part of our initiatives on risk management, as well as on enhancing our efficiency in loan approvals. We also widened our partnership coverage of auto dealerships in Metro Manila and key provincial cities.

To further sustain our momentum, we will intensify our sales efforts and deliver loan products closer to our chosen market segments. We will also exert greater focus on tapping our existing relationship accounts and cross-selling activities.

OPERATIONAL HIGHLIGHTS



37%

Increase in remittance volume in 2013



12

New remittance partnerships forged in seven countries



70%

Increase in loans to private banking clients

REMITTANCES

Description

AUB is able to serve the financial needs of millions of overseas Filipino workers in many areas across the globe through GintongHatiid, a comprehensive package of services that can be accessed through AUB's remittance tie-ups, overseas marketing representatives, or through the AUB GintongHatiid Remittance Express System. We ensure fast and reliable handling of remittance transactions so that OFWs and their families receive on time their hard-earned money remitted from abroad.

Strategy

Mirroring the continued robust growth of OFW remittances the country received in 2013, AUB's remittance business increased by 37 percent to US\$585 million from US\$427 million in 2012.

The higher volume was partly as a result of new tie-ups established and payout agents accredited in 2013. There were 12 new partnerships AUB forged in South Korea, Saudi Arabia, Australia, New Zealand, Israel, the United States, and the United Kingdom.

The business also benefited from system enhancements made, including the remittance collection via SSS Online Collection Payment and the IBFT express. AUB also re-launched the Remittance Regalo Raffle Promo and the Loyalty Reward program to attract and retain loyal clients.

PRIVATE BANKING

Description

AUB provides banking and investment services to private individuals investing sizable assets. The nature of services we offer is more personal and it is customized to help our clients preserve and grow their wealth.

Strategy

The distinctive brand of AUB's personalized service continues to propel the success of our private banking business.

In 2013, our Private Banking Group contributed Php2.30 billion in deposits and Php6.5 billion in term placements, representing a growth of 23% and 81%, respectively.

Loans to private banking clients surged 70 percent to Php5.6 billion, largely due to the stable interest rate environment.

In 2013, we focused on the real estate, steel, oil/ petroleum, food and tourism-related industries due to their significant growth.

We will expand in other industries with high growth potential in succeeding years. We will also strengthen our relationship marketing to expand our clientele, improve our deposit levels, loan portfolio and trade transactions.

AUB will remain committed in nurturing long-term relationships with our clients by ensuring effective and timely delivery of products and services.

OPERATIONAL HIGHLIGHTS



INFORMATION TECHNOLOGY

Description

Information technology continues to be a key differentiating strategy for AUB. In the pursuit of innovation, we continued to harness powerful technology to introduce product enhancements, as well as to meet the growing requirements of our expanded branch network.

Strategy

In 2013, we continued to ensure that our IT infrastructure would more than adequately support our various delivery channels. This includes meeting the IT requirements of our growing branch network, which expanded to 163 by yearend from 105 branches in 2012; and our ATM network, which grew to over 160 ATMs.

We also introduced additional features to our mobile and online banking facilities to enhance our customers' online experience. Added features in 2013 were the online Peso Transfer to other local bank accounts, and the Android version of the AUB Mobile Banking application to complement our iOS-based mobile app.

AUB branches also started sporting the new-generation Virtual Teller Kiosk (VTK) that was based on Apple's iPad device. Both in form and in usability, the VTK-iPad version offers a much better branch banking experience for customers.

Other AUB services also benefited from system enhancements in 2013:

- For the AUB BizKit, the HR Information System system was expanded to cater to various industries that require end-to-end solution for managing both HR and payroll systems;
- For the AUB remittance system, we continued to expand its various services, specifically in Express Remit;
- Our web-based loans systems were re-designed to cater to various consumer segments and meet the expected growth in business volume; and
- We developed enhanced supplier-payment facilities for the convenience of AUB clients and their suppliers.

HUMAN RESOURCES

Description

Behind the success of AUB is its people. Their continuous professional development, through training, employee engagement, and career planning, makes them better prepared for the future challenges that the Bank will meet as it pursues its goal to become one of the country's leading banks.

Strategy

As of December 31, 2013, AUB had a total workforce of 1,606, an increase of 35 percent from the 2012 level. The growth mirrored the Bank's branch network expansion.

We were able to meet our manpower requirements by embarking on recruitment activities and forging new tie-ups with prestigious colleges and universities that became a steady source of talents for the Bank. This was complemented by an internal search for high-potential employees across branch positions.

We also initiated development programs for our branch managers, sales and service officers to hone the skills and competencies of in-house candidates. We designed a Professional Selling Skills Program for our branch sales officers to reinforce their skills and boost their confidence.

We also introduced a Credit Management Program that ran parallel to our branches' programs, aimed at developing account officers' credit skills, given the mandate to build and maintain a healthy loan portfolio. Behavioral programs on customer service and supervisory and leadership skills were likewise conducted for the revenue-generating and support units.

Our investment in people development will continue as we face the challenge of competition for talent, not only from our peer banks, but also from other industries. By offering technical and behavioral training programs, AUB hopes to heighten and standardize the customer experience we create, which is critical in sustaining our business.



CORPORATE SOCIAL RESPONSIBILITY

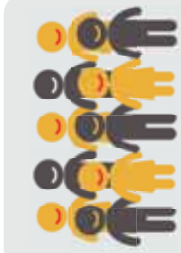


Going the extra (s)mile

One hundred indigent children with cleft lip or cleft palate received life-changing reconstructive surgery and health care for free in 2013.

This was because of Asia United Bank's Php1.5-million donation to Operation Smile Philippines (OSP), a medical charity organization that helps indigent children and young adults born with cranio-facial disorders like cleft palates or cleft lips and other facial deformities through reconstructive surgery.

AUB sponsored surgeries held in OSP's mission site in Angeles City, Pampanga in November 2013, the same month that the Bank marked its 16th anniversary since it started its operations. This was the second time that the bank and its branch personnel took part in Operation Smile's medical missions. In 2012, AUB extended a Php1-million donation to OSP, which covered the surgery of 67 children in Dasmariñas City, Cavite and in Cagayan de Oro City. The activities were part of OSP's global 30th anniversary celebration where it conducted nine-city medical missions called "Journey Home."



100

Number of indigent children with cleft lip or cleft palate who received free reconstructive surgery out of AUB's donation to Operation Smile



Photo above: AUB Vice Chairman Ramon V. Sy (center, standing) with AUB senior officers and employee volunteers after the Operation Smile medical mission in Pampanga. Also above are photos of Operation Smile children beneficiaries who received free reconstructive surgery in Pampanga.



Topmost photo: (L-R) OSP chairman Joaquin Quintos, Jr.; former OSP president and executive director Roberto J. Manzano; AUB executive vice-president Antonio Agcaoili, Jr.; and AUB president Abraham T. Co. during the signing of the memorandum of agreement. Photo above: AUB employee volunteers at the medical mission in Angeles City, Pampanga.

RISK MANAGEMENT

AUB is exposed to risks that are inherent to any banking business, including credit risk, market risk and operational risk. AUB's risk management objective is to adequately and consistently identify, measure, control and monitor the various risks that arise from its business activities, and to ensure that all of its operations strictly adhere to the policies and procedures which are established to address these risks.

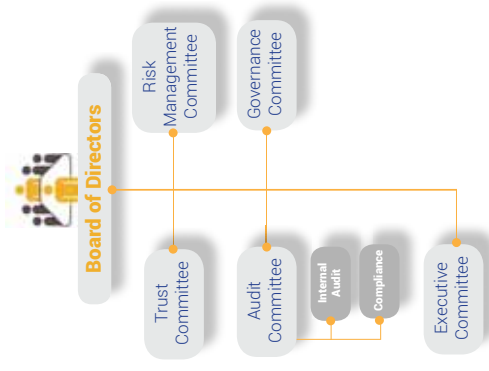
RISK MANAGEMENT FRAMEWORK

AUB adopts a top-down risk management framework, with the Board of Directors setting policy, defining the overall institutional tolerance for risk and creating the framework that allocates responsibilities and institutes controls for compliance with policies.

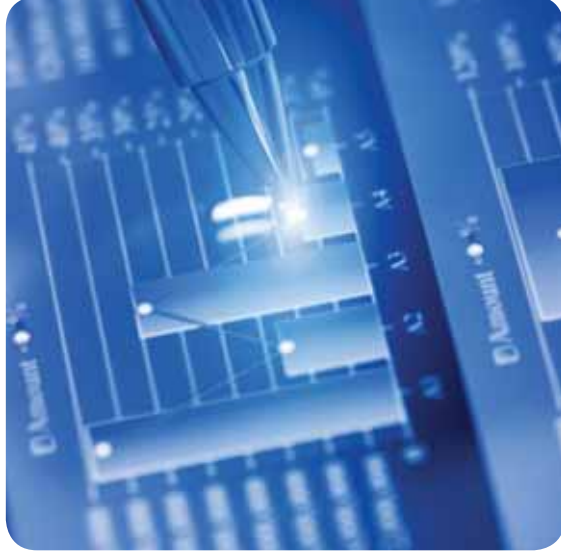
The responsibility for implementation of these risk management procedures resides at all levels of the Bank and its subsidiaries, with all employees receiving training on their role in both the risk and internal control processes.

Committees of the Board of Directors

Below is a diagram on the Board committees, to which Board members were appointed.



Risk Management Committee (RMC)
The Board of Directors is apprised of the decisions and matters for its attention by the Risk Management Committee (RMC), which advises the Board on setting and monitoring adherence to limits that reflect AUB's maximum tolerance for each major risk, including credit risk, market risk, interest rate risk, foreign exchange risk, liquidity risk and operational risk. The RMC is actively involved in planning, reviewing, approving and assessing all risks involved.



AUB's Assets and Liabilities Committee (ALCO) is responsible for managing AUB's statement of financial position, including its liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

Risk Management Unit (RMU)

The RMC directly oversees the Risk Management Unit (RMU), which is an independent unit within the Bank that is principally tasked with quantifying risks using established methodologies such as value at risk (VaR), stress testing, back testing and capital sensitivity to risk.

The RMU reports its findings and makes recommendations to the RMC to assist the Board in setting overall risk management policy that ensures an appropriate balance between risk and return. In addition, the Operations and Information Technology Risk Manager represents the RMU in the Product Committee, which is responsible for setting product development policies and guidelines.

Vulnerabilities in the existing risk management framework are identified, evaluated and reviewed by the risk manager of the affected area (either credit, market or operational), and appropriate policies and procedures are implemented to ensure that risks are addressed and documented properly in product manuals.

Treasury Operations and Market Risk Officers
Treasury Operations is responsible for reviewing daily mark-to-market valuation, which is calculated by an automated process. Market risk officers within the RMU are responsible for performing value-at-risk calculations for all of AUB's risk positions using independent data sources; ensuring compliance with internal limits and reporting all limit exceptions to the RMC.

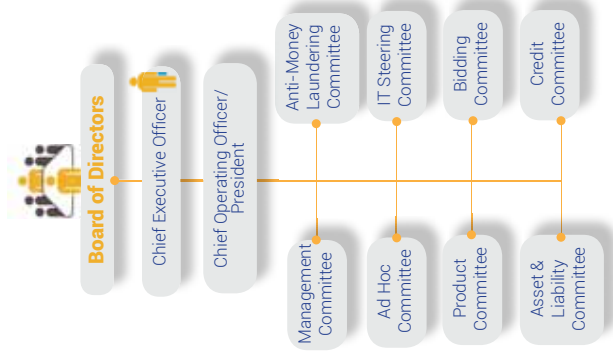
Internal Audit Function

The Bank's Audit Committee assumes the internal audit function, which is responsible for monitoring the performance and adequacy of AUB's risk management functions and ensuring compliance with the internal risk management policies through periodic reviews and spot checks. It also identifies internal control deficiencies and assists in reviewing new and existing products and instruments to ensure sufficient internal controls.

Senior Management

The senior management is responsible for implementing the Board-approved risk strategy, ensuring that procedures and policy are applied consistently throughout the Bank and that all levels of staff are informed of their responsibilities with respect to risk management. Senior management is also responsible for developing the specific policies, processes and procedures for managing risks in all of AUB's products, activities and systems according to the Board-approved framework.

Below is the diagram of the committees of the senior management:



RISK MANAGEMENT

TYPES OF RISKS

AUB is exposed to risks that are inherent to any banking business. These include liquidity risk, market risk, foreign currency risk, credit risk, and operational risk.

Credit Risk

Credit risk is the risk that the counterparty in a transaction will not be able to pay obligations in full or on time as contracted, subjecting the Bank to financial loss. AUB is exposed to credit risk through its lending, trade finance, Treasury investments, over-the-counter derivatives trading and other activities undertaken by AUB.

AUB has established a credit quality review process, which includes regular collateral revisions, to enable early identification of possible changes in the creditworthiness of counterparties. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a corresponding risk rating. These credit reviews are conducted during weekly Credit Committee Meetings and Executive Committee Meetings.

AUB's risk management process also includes the review of excessive risk concentration. The RMU reviews AUB's loan portfolio in line with AUB's policy of not having significant unwarranted exposure to individual counterparties. This policy is in line with the BSP's prohibitions on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

As with the single-borrower limit, AUB's exposure to a particular industry is limited to 25% of the total loan portfolio. AUB also has limits on excessive exposure to counterparties engaged in similar business activities or activities in the same geographical region, borrowers that have a similar economic profile, a particular type of credit facility or a particular type of security.

Credit Approval Process

AUB has developed a sound credit granting process which takes into account, among other factors, the purpose of the credit and sources of repayment, the integrity and reputation of the borrower, the current risk profile (including the nature and aggregate amounts of risk) of the borrower and its sensitivity to economic and market developments, the borrower's repayment history and current capacity to repay

based on historical financials and cash flow projects, the legal capacity of a borrower to assume liability, the borrower's business expertise, the proposed terms and conditions of the credit, including covenants designed to limit future indebtedness, and the applicability and enforceability of collateral or guarantees under various scenarios.

For commercial loans, AUB applies its Internal Credit Risk Rating System (ICRRS), which has been in place since 2005 in compliance with BSP regulations. The ICRRS involves a two-pronged analysis, assessing both the (1) borrower risk rating, or the creditworthiness of the particular borrower, and (2) facility risk rating, or the risk level of a specific facility taking into account the security, collateral and credit covenants.

For consumer loans, AUB applies a credit risk ratings based on historical payment patterns and default history of the borrower.

The table on the next page presents the classification of credit rating to credit quality and a description for each credit rating.

The credit quality of other financial instrument exposures, such as trading and investment securities, are managed by reference to external ratings, supplemented by individual assessments.

Credit Risk Monitoring

AUB implements a credit quality review process to enable early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. The credit quality review process allows AUB to assess potential loss and take corrective actions to mitigate losses that may arise from the risks to which it is exposed.

Credit Risk Mitigations are in the form of guarantees and acceptance of collaterals such as deposits, real estate mortgage, chattel mortgage and shares of stocks or club memberships.

Credit Quality	Internal credit rating:	ICRRS Grade	Description
High		Good 1	- The borrower exhibits adequate protection parameters, but there are foreseen adverse conditions or circumstances that will, in all likelihood, lead to a weakened capacity of the borrower to pay its debt obligations upon maturity. - The borrower's earning performance and capacity to pay maturing obligations are more vulnerable to possible occurrences than those rated Strong. - This type of borrower, where the probability of default is still quite low, bears characteristics of some degree of stability and substance.
	External:	Aaa	Highest quality, with minimal credit risk
		Aa1-Aa3	High quality and is subject to very low credit risk
		Baa1-Baa2	Subject to moderate credit risk
		Baa3	Considered medium-grade and as such may possess certain speculative characteristics
Standard	Internal credit rating:	Good 2	- The probability of default is somewhat greater than those rated as Good 1. This probability is reflected in volatility of earnings and overall performance. - Borrowers in this category normally have less access to public financial markets. - Borrowers should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. - The borrower and its principals still have good credit standing with the creditors and trade suppliers, without any history of past due.
		Good 3	- The borrower has very limited access to external funding sources. - The risk elements for AUB are sufficiently pronounced, although borrowers should still be able to withstand normal business cycles. - Any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.
	External:	Ba1	Have speculative elements and is subject to substantial credit risk
		Ba2-Ba3 B1	Considered speculative and is subject to high credit risk (Actual exposure limited to foreign exchange denominated issues of the Republic of the Philippines hence the Standard Classification)
Substandard	Internal credit rating:	Watchlist	- The borrower is vulnerable to non-payment but payments are still being made. - The borrower has a minimal level of, and doubtful sources for, alternative funding to cover possible shortfalls of existing liquidity to pay off maturing obligations.
		Doubtful	The borrower is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful.

Using regulatory Standard approach, AUB's Consolidated Credit Risk-Weighted Assets as of December 2014 is as follows:

Credit Risk - Weighted Assets in million Php	
Total Risk-Weighted On-Balance Sheet Assets (Schedule A)	62,961.3
Total Risk-Weighted Off-Balance Sheet Assets (Schedule B)	833.8
Total Counterparty Risk-Weighted Assets in the Banking Book (Derivatives and Repo-style Transactions) (Schedule C)	1,259.7
Total Risk-Weighted Amount of Credit Linked Notes in the Banking Book (Schedule D)	1,840.4
Total Gross Risk-Weighted Assets	66,895.2
Capital Requirements	6,689.5

Schedule B (In million Php)		
On-Balance Sheet Assets		
	Credit Equivalent Amount	Total Credit Risk Weighted Assets
Direct credit substitutes	91.3	91.3
Transaction-related contingencies	373.3	373.3
Trade-related contingencies		
arising from movement of goods	369.3	369.3
Other commitments which can be unconditionally cancelled at any time by the bank	-	-
Total	833.8	833.8

Schedule C (In million Php)		
Counterparty Risk-Weighted Assets in the Banking Book		
	Credit Equivalent Amount	Total Credit Risk Weighted Assets
Exchange Rate Contracts	142.9	125.5
Counterparty Exposures Arising from Financial		
Assets Sold/lent under Repurchase Agreements, Certificates of Assignment/Participation with Recourse, Securities Lending and Borrowing Agreements		1,134.2
Total Counterparty Risk-Weighted Assets in the Banking Book		1,259.7

Schedule D (In million Php)	
Total Risk-Weighted Amount of Credit Linked Notes in the Banking Book	
Amount of Protection (Fair Value of CLN)	1,840.4

Schedule A (In million Php)		
On-Balance Sheet Assets		
	Total Credit Risk Exposure after Risk Mitigation	Total Credit Risk Weighted Assets
Cash on Hand	2,215.9	
Checks and other Cash Items	24.3	4.9
Due from BSP	18,700.6	
Due from other Bank	1,201.6	854.5
Financial Assets Designated at Fair Value	104.3	104.3
Available for Sale (AFS) Financial Assets	26,745.5	12,630.3
Loans and Receivables	43,202.7	42,831.6
Sales Contract Receivable (SCR)	271.8	278.8
Real and Other Properties Acquired	1,191.2	1,786.8
Total Exposures Excluding Other Assets	93,658.0	58,491.1
Other Assets	4,470.2	4,470.2
Total Exposures Including Other Assets	98,128.2	62,961.3
Total Risk-Weighted On-Balance Sheet		
Assets not covered by Credit Risk Mitigants		
Assets covered by Credit Risk Mitigants		
Total Risk-Weighted On-Balance Sheet Assets		62,961.3

As at December 31, 2013, the entire US\$0.0 million of outstanding face value of structured notes are instruments where the bank is a protection seller on the credit worthiness of the Republic of the Philippines.

Liquidity Risk
Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of AUB's customers and repay deposits on maturity. AUB 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 which is repriced on a regular basis. In addition, AUB seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

Market Risk
Market risk is the potential loss in the value of investments and other asset and liability portfolios, including financial instruments. The Bank uses both standardized approach (following the BSP's CAR template) and Value at Risk (VaR) in its market risk management process and capital allocation.

VaR is used to assess the interest rate risk inherent in the Bank's treasury portfolio. The Bank's model uses historical distribution to assess the maximum possible loss that would incur in a one-day holding period within a 99% confidence interval. Currently, the Bank's capital charge for interest rate risk in the trading book is based on the standardized approach that is composed of a specific and general market risk charge.

Interest rate risk in the banking book refers to mismatch in the repricing schedules in the Bank's accrual books. The Bank uses Earning at Risk (EaR) to assess the interest rate risk inherent in its balance sheet. Repricing gaps (repricing assets less repricing liabilities) are measured for every time bucket. Interest rate volatility (projected using historical movement of interest spot rates for the given maturity at a 99% confidence interval) is applied to the repricing gaps to calculate EaR or Balance Sheet Value-at-Risk (BS VaR).

The Parent Company's repricing gap is calculated by distributing the accounts into tenor buckets according to the time remaining to the next contractual repricing date or maturity date (for fixed rate transactions) and then obtaining the difference between the total of the repricing (interest sensitive) assets and repricing (interest sensitive) liabilities. For transactional (non-maturity) products, the observed frequency of repricing is assumed. For 2013, Demand and Savings deposits were assumed to reprice annually.

The interest rate risk in the Banking Book is reported by the Risk Management Unit (RMU) to the Risk Management Committee and the Board on a monthly basis. The Parent Company calculates and monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on the Parent Company's net worth. The procedure involves applying / (multiplying and annualizing) volatilities of the various tenors of the PHREF (for Peso Books) and LIBOR (for \$ Books) to its net interest positions for the first year.

The Parent Company uses the "twist" model which assumes that net interest positions will always be on the disadvantageous side of the yield curve. For 2013, the risk of decrease in economic value using this model is P324 million.

Foreign currency risk is the risk (variability in value) borne by an asset or liability denominated in a foreign

currency due to variability of foreign exchange rates. As a means of measuring its foreign currency risk, the Bank also uses the VaR to assess the maximum possible loss that it would incur in a one-day holding period within a 99% confidence interval.

The Bank's capital charge for foreign currency risk is based on the standardized approach that is composed of a specific and general market risk charge.

Market Risk-Weighted Assets	
In million Php	
Interest Rate Exposures	32,560.8
Foreign Exchange Exposures	1,527.4
Sub-total (Sum of A.1 to A.4)	34,088.2
Using Internal Models Approach	-
Total Market-Risk Weighted Assets	34,088.2
Capital Requirements	3,408.82

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, employees, operating systems and external events. Operational risk is inherent in all areas of business, and AUB has identified information system security, business continuity, compliance and legal risk as its major areas of operational risk. To manage operational risk, AUB's operating units regularly perform risk and control self-assessments (RCSAs) wherein each unit analyzes its key processes and identifies risks inherent in its operations, as well as the controls necessary to mitigate such risks. Risks are ranked "high", "medium", or "low" in accordance with existing guidelines, which assess the impact and likelihood that the risk will materialize.

AUB uses the Basic Indicator Approach in calculating Operational Risk Weighted Assets:

Operational Risk -Weighted Assets	
In million Php	
Average Capital Requirement for last 3 years	409.6
Adjusted Capital Charge	511.9
Operational Risk-Weighted Amount	5,119.5
Capital Requirements	511.95

RISK MANAGEMENT

Information System Security

Information security and the protection of confidential and sensitive customer data are critical to AUB.

AUB has implemented an information security program which complies with regulatory guidelines and industry best practices. Among other security measures, the information security program requires entitlement reviews for AUB's various application systems to ensure that access to data is restricted to authorized employees only and that access is provided on a need-to-know basis.

Various critical logs are reviewed regularly to ensure that AUB's information assets are adequately protected. AUB's information security program is reviewed and enhanced periodically to address emerging threats to customers' information.

Operational Controls and Procedures

In addition to RCSAs, key risk indicators (KRIs) are used to alert the Bank of impending problems in a timely fashion. KRIs enable monitoring of the Bank's control culture and operational risk profile, in addition to triggering risk mitigating actions. The Bank captures and monitors KRIs on a monthly basis. Operational loss events are reported in a central database and are reported to the RMC monthly. Comprehensive information about these events is collected, including information on the amount of loss, occurrence, discovery date, business area and product involved, root causes and risk drivers.

Business Continuity Function

AUB's business continuity planning is led by its Operational Risk Management Unit, a sub-unit within the Bank's Risk Management Unit. The Operational Risk Management Unit coordinates Bank-wide preparedness and mitigation strategies for business continuity risks by regularly updating its business continuity plan and performing tests of recovery procedures.

The primary objective of the business continuity plan is to provide defined guidelines that enable different business units to handle software and hardware, communications, facilities degradation and failure and certain adverse personnel situations that may result from accidental or deliberate circumstances. To this end, each unit of the Bank performs an annual "business impact analysis," which identifies the critical activities that support key products and services within the unit, interdependencies with other

units and outside parties, recovery time and point objectives, resources required to support minimum activity levels, the priorities for recovery and the potential loss arising from failures in key business activities.

AUB's primary data center, located at Joy~Nostalg Tower in Ortigas Center, Pasig City, contains redundant data communications connections, multiple active power and cooling distribution paths and security devices to ensure seamless functioning of AUB's IT infrastructure and to protect against disruptions in internet connectivity. AUB also maintains a disaster recovery data center located with the capability to host critical banking applications in the event of a shut-down at the primary site. AUB conducts semi-annual business continuity plan tests for critical applications to ensure continuity of its operations in the event of disaster.

Compliance Risk

The Board and the Senior Management of AUB strongly believe that compliance is a line-driven function and, as such, is the direct responsibility of each line manager. All AUB employees are trained to be personally responsible for familiarizing themselves with the laws, regulations, policies and ethical standards applicable or related to their respective assignments and responsibilities at the Bank. In relation to this corporate policy, the Board approved the adoption and implementation of the compliance program, subject to final approval by the Monetary Board, in a meeting of the Board on July 17, 1998.

Legal Risk

AUB has established and maintains policies and procedures for identifying and avoiding the sources and causes of legal risk with the aim of preventing financial loss, criminal or civil litigation and/or administrative sanctions.

AUB engages several external legal counsels to assist in the handling of legal matters requiring legal advisory, documentation, litigation and other similar legal services. The expertise and specialization of these external counsels are assessed, verified and taken into consideration in the assignment and endorsement of legal cases to ensure that AUB receives effective, timely and proper legal assistance at all times. Specific guidelines are formulated to control endorsement of cases, monitoring of case status, review and approval of billings, as well performance review.

Capital Management

Capital Adequacy Ratio (CAR)

The capital adequacy ratio (CAR) of the Group and Parent Company, as reported to the BSP, as at December 31, 2013 and 2012 are shown in the table below:

	Consolidated Parent Company (in millions)			
	2013	2012	2013	2012
Tier 1 capital	P19,038	P9,376	P19,232	P10,326
Tier 2 capital	462	282	456	278
Total regulatory capital	19,500	10,258	19,688	10,604
Less required deductions			611	932
Total qualifying capital	19,500	P10,258	19,077	9,672
Risk weighted assets	106,103	P66,673	104,304	65,344

Capital Ratios

Total regulatory capital expressed as percentage of total risk weighted assets	18.38%	15.39%	18.29%	14.80%
Total tier 1 expressed as percentage of total risk weighted assets	17.94%	14.96%	18.15%	14.80%

As at December 31, 2013 and 2012, the Group and the Parent Company were in compliance with the minimum CAR.

Qualifying Capital

In computing the CAR, the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital, and (ii) Tier 2 Capital. Tier 1 Capital and Tier 2 Capital are defined as follows:

	Inclusions	Deductions
Tier 1 capital	Paid-up common stock, paid-up perpetual and non-cumulative preferred stock, common and perpetual non-cumulative preferred stock dividends distributable, surplus, undivided profits (for domestic banks only), unsecured subordinated debt (with prior BSP approval), and minority interest in the equity of subsidiary financial allied undertakings.	Treasury shares, unrealized losses on equity securities purchased, unbooked valuation reserves, and other capital adjustments based on the latest report of examination, outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI), goodwill, and deferred income tax.

	Inclusions	Deductions
Tier 1 capital	Perpetual and cumulative preferred stock, limited life redeemable preferred stock with or without replacement requirement subject to BSP conditions, dividends distributable, appraisal increment reserve - bank premises, as authorized by the Monetary Board (MB), net unrealized gains on underwritten listed equity securities purchased, general loan loss provision, unsecured subordinated debt with a minimum original maturity of at least ten years (with prior BSP approval), unsecured subordinated debt with a minimum original maturity of at least five years (with prior BSP approval), and deposit for stock subscription on common stock, perpetual and non-cumulative preferred stock, perpetual and cumulative preferred stock subscription, and limited life redeemable preferred stock subscription with the replacement requirement upon redemption.	Perpetual and cumulative preferred stock treasury shares, limited life redeemable preferred stock replacement requirement upon redemption, sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption, limited life redeemable preferred stock treasury shares without the replacement requirement upon redemption, and sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption.

The breakdown of the Group's and Parent Company's qualifying capital follows:

	Consolidated Parent Company (in millions)			
	2013	2012	2013	2012
Tier 1 capital	P19,937	P11,057	P19,822	P11,011
Paid-up common stock	3,235	2,400	3,235	2,400
Additional paid-in capital	6,623		6,623	
Retained earnings	8,512	7,095	8,527	7,252
Undivided profits	1,474	1,423	1,467	1,402
Cumulative foreign currency translation	(30)	(43)	(30)	(43)
Minority interest in subsidiary financial allied undertakings which are less than wholly-owned				
(for consolidation basis)	123	182	19,937	11,011
Total tier 1 capital	19,937	11,057	19,822	11,011

(Forward)

	Consolidated		Parent Company	
	2013	2012	2013	2012
Deductions				
Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI (net of specific provisions, if any), and unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates (net of specific provisions, if any) referred to in Circular No. 560	P39	P34	P39	P34
Deferred income tax (net of allowance for impairment, if any)	554	650	551	651
Goodwill (net of allowance for impairment, if any)	306	397	-	-
Total deductions	899	1,081	590	685
Tier 1 capital	19,038	9,976	19,232	10,326
Tier 2 capital				
General loan loss provision (limited to 1.00% of credit risk-weighted assets)	462	282	456	278
Total tier 2 capital	462	282	456	278
Deductions				
Tier 2 capital	462	282	456	278
Total regulatory capital	19,500	10,258	19,688	10,604
Required deductions				
Investments in equity of unconsolidated subsidiary banks and quasi banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill			611	932
Total qualifying capital	P19,500	P10,258	P19,077	P9,672

Risk Weighted Assets

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.00% to 150.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors.

The Group's total risk-weighted assets, as reported to the BSP, as at December 31, 2013 and 2012 are shown in the table below:

	Consolidated		Parent	
	Credit risk-weighted assets	Market risk-weighted assets	Operational risk-weighted assets	Total
2013	P66,895	P34,088	P5,119	P106,102
2012	P44,735	P17,635	P4,303	P66,673

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

Risk weight	Exposure/Asset Type
0.00%	Cash on hand, claims collateralized by securities issued by the national government, BSP, loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation
20.00%	COC, claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation
50.00%	Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation
75.00%	Direct loans of defined Small Medium Enterprise (SME) and microfinance loans portfolio, non-performing housing loans fully secured by first mortgage
100.00%	All other assets (e.g., real estate assets) excluding those deducted from capital (e.g., deferred income tax)
150.00%	All non-performing loans (except non-performing housing loans fully secured by first mortgage) and all non-performing debt securities
*Not all inclusive	

With respect to off-balance sheet exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0.00% to 100.00%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100.00%, while items not involving credit risk has a CCF of 0.00%.

In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0.00% to 1.50% (interest rate-related) and from 1.00% to 7.50% (exchange rate-related), depending on the residual maturity of the contract. For credit-linked notes and similar instruments, the risk-weighted exposure is the higher of the exposure based on the risk weight of the issuer's collateral or the reference entity or entities.

The summary of the credit risk-weighted assets, as reported to the BSP, as at December 31, 2013 and 2012 are shown in the table below:

	Consolidated		Parent Company	
	2013	2012	2013	2012
(in millions)				
Total risk weighted on-balance sheet assets	P62,961	P41,194	P61,287	P39,906
Total risk weighted off-balance sheet assets	834	821	834	821
Total counterparty risk-weighted assets in the banking book (derivatives and repo-style transactions)	1,260	71	1,260	71
Total risk-weighted amount of credit linked notes in the banking book	1,840	2,649	1,840	2,649
Total credit risk-weighted assets	P66,895	P44,735	P65,221	P43,447

The breakdown of the credit risk-weighted assets, as reported to the BSP, as at December 31, 2013 and 2012 are shown in the table below:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Cash on hand	P2,216	P1,728	P2,210	P1,724
Checks and other cash items	24	2	24	2
Due from BSP	18,701	9,505	18,689	9,495
Due from other banks	1,202	1,468	1,172	1,436
Financial assets designated at fair value through profit or loss	104	11,947	26,358	11,653
AFS investments	26,745	28,960	42,454	28,386
Loans and receivables	272	362	264	373
Sales contract receivable (SCR)				

	Consolidated		Parent Company	
	2013	2012	2013	2012
Real and other properties acquired	1,191	1,207	1,042	1,138
Total exposures excluding other assets	93,658	55,199	92,213	54,207
Total exposures, including other assets	98,128	57,000	96,305	55,940
Total risk-weighted on-balance sheet assets not covered by CRM	62,961	41,194	61,287	39,906
Total risk-weighted on-balance sheet assets covered by CRM				

	Consolidated		Parent Company	
	2013	2012	2013	2012
TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS				
Guarantees issued	91	116	91	116
Transaction-related contingencies	373	461	373	461
Trade-related contingencies arising from movement of goods (e.g., documentary credits collateralized by the underlying shipments) and commitments with an original maturity of up to one (1) year	369	244	369	244
TOTAL RISK-WEIGHTED OFF-BALANCE SHEET ASSETS	834	821	834	821
Derivative exposures	143	85	143	85
Risk-weighted amount	125	71	125	71

The summary of the market risk-weighted assets, as reported to the BSP, as at December 31, 2013 and 2012 are shown in the table below:

	Consolidated		Parent Company	
	2013	2012	2013	2012
(in millions)				
Using standardized approach				
Interest rate exposures	P32,561	P17,113	P32,561	P17,113
Foreign exchange exposures	1,527	522	1,527	522
Total market risk-weighted assets	P34,088	P17,635	P34,088	P17,635

The breakdown of the market risk-weighted assets, as reported to the BSP, as at December 31, 2013 and 2012 are shown in the table below:

	Consolidated			Parent Company		
	2013	2012		2013	2012	
Specific risk				997	P779	P779
General market risk						
Philippine Peso		145		605	605	145
U.S. Dollar		445		1,003	1,003	445
Subtotal		590		1,608	1,608	590
Total Capital Charge For Interest Rate Exposures						
Adjusted Capital Charge For Interest Rate Exposures ¹		1,369		2,605	2,605	1,369
TOTAL RISK-WEIGHTED INTEREST RATE EXPOSURES ²		1,711		3,256	3,256	1,711
		P17,113		32,561		P17,113

¹Capital charge is multiplied by 125% to be consistent with BSP required minimum CAR of 10%, which is 25% higher than the Basel minimum of 8%.

²Adjusted capital charge is multiplied by 10 (i.e. the reciprocal of the minimum capital ratio of 10%).

The summary of the Group's operational risk-weighted assets, as reported to the BSP, as at December 31, 2013 and 2012 are shown in the table below:

Basic indicator approach (BIA)	Capital charge factor	Consolidated						Adjusted capital charge	Risk weighted amount
		Year 3	Year 2	Last year	Average	Year 2	Year 3		
2013	15%	2,248	2,664	3,279	492	410	512		5,119
2012	15%	P2,015	P2,206	P2,564	P400	P344	P430		P4,303
Basic indicator approach (BIA)	Capital charge factor	Parent						Adjusted capital charge	Risk weighted amount
		Year 3	Year 2	Last year	Average	Year 2	Year 3		
2013	15%	P2,206	P2,598	P3,190	P478	P400	P500		P4,995
2012	15%	2,015	2,206	2,598	390	341	426		4,262

2013 Consolidated	(Amounts in PHP millions)	Exposures, Covered by CRM, Gross Specific of Materiality Provisions	Exposures, Not covered by CRM	Risk Weights					TOTAL
				0%	20%	50%	75%	100%	
Cash, Checks and other cash items		2,240	2,216	24	-	-	-	-	2,240
Sovereigns		35,448	30,116	-	3,804	-	-	-	33,920
MDB		-	-	-	-	-	-	-	-
Banks		3,317	-	132	2,091	-	-	1,093	3,317
Interbank Call Loans		-	-	75	-	-	-	-	75
Local Government Units		-	-	-	-	-	-	-	-
Government Corporations		-	-	-	-	-	-	-	-
Corporates		-	-	-	-	-	-	-	-
Housing Loans		44,002	42,626	-	-	-	42,626	-	42,626
MSME equivalent portfolio		2,146	134	-	2,012	-	134	-	2,146
Defaulted Exposures Housing Loans		2,316	2,316	-	-	-	2,316	-	2,316
Defaulted Exposures Others		4,321	4,321	-	-	86	4,235	-	4,321
ROPA		48	48	-	-	-	48	-	48
Other Assets		1,458	1,458	-	-	-	-	1,458	1,458
Total Risk-Weighted On-Balance Sheet Assets		1,191	1,191	-	-	-	-	1,191	1,191
Total Risk-Weighted Off-Balance Sheet Assets		4,470	4,470	-	-	-	-	4,470	4,470
Total Counterparty Risk-Weighted Assets in the Banking Book		101,032	98,128	231	7,907	86	54,923	2,549	98,128
Total Risk-Weighted Amount of Credited Linked Notes in the Banking Book		-	-	46	3,953	64	54,923	3,974	62,961
Total Credit Risk-Weighted Assets		-	-	437	703	120	-	-	1,260
		-	-	483	4,656	64	1,840	3,974	1,840
		-	-	-	-	-	-	-	66,895

2013 Consolidated	(Amounts in PHP millions)	Exposures, Net of Specific Provisions	Exposures, Covered by CRM, Gross Specific of Materiality Threshold	Exposures, not covered by CRM	Risk Weights				
					0%	20%	50%	75%	100%
Cash, Checks and other cash items		1,730	-	1,730	1,728	2	-	-	-
Sovereigns		15,095	-	15,095	13,569	-	113	-	1,414
MDB		-	-	-	-	-	-	-	-
Banks		3,500	-	3,500	-	553	957	-	1,745
Interbank Call Loans		-	7	7	-	7	-	-	-
Local Government Units		-	-	-	-	-	-	-	-
Government Corporations		-	-	-	-	-	-	-	-
Corporates		26,927	-	-	-	-	-	-	-
Housing Loans		1,401	1,446	25,481	-	-	-	-	25,481
Individuals		2,116	1,401	1,401	-	1,331	-	-	70
MSME equivalent portfolio		3,796	2,116	2,116	-	-	-	-	2,116
Defaulted Exposures Housing Loans		39	3,796	3,796	-	-	-	-	3,796
Defaulted Exposures Others		1,072	39	39	-	-	-	-	39
ROPA		1,207	-	1,072	-	-	-	-	1,072
Other Assets		1,801	-	1,207	-	-	-	-	1,207
Total Risk-Weighted On-Balance Sheet Assets		58,692	1,446	57,245	15,296	562	2,400	-	1,801
Total Risk-Weighted Off-Balance Sheet Assets		-	-	-	-	-	-	-	-
Total Counterparty Risk-Weighted Assets in the Banking Book		-	-	-	-	112	1,200	-	36,463
Total Risk-Weighted Amount of Credited Linked Notes in the Banking Book		-	-	-	-	3	1	-	821
Total Credit Risk-Weighted Assets		-	-	-	-	116	1,201	-	66
		-	-	-	-	-	-	-	2,649
		-	-	-	-	-	-	-	6,068
		-	-	-	-	-	-	-	44,735

Risk - weighted on-balance sheet assets covered by credit risk mitigants consisted of collateralized transactions and guarantees by the Philippine National Government (PNG) and those with highest credit rating. Third party credit assessments were based on the ratings by Standard & Poor's, Moody's, Fitch and Phil Rating System on exposures to Sovereigns, Banks, LGU's, Government Corporates, and Corporates.

Asia United Bank has no securitization structures.

For more information on AUB's risk management objectives, policies, and other matters, please refer to Note 4 of the Group's Audited Consolidated Financial Statements.



The Board of Directors and management of Asia United Bank are committed to the principle of sound governance and strive for the highest standards of ethical conduct, integrity and values-based leadership.

Role of the Board of Directors

The Board is mainly responsible for directing the Bank's strategy and operations in order to build and enhance its sustainability. In doing so, the Board remains cognizant of the Bank's impact on internal and external stakeholders when considering the short- and long-term effect of its strategy on the economy, society and the environment.

Specifically, the Board has the following duties and functions:

- Approve and monitor the implementation of strategic objectives;

- Approve and oversee the implementation of policies governing major areas of banking operations;
- Oversee the selection and performance of senior management;
- Consistently conduct the affairs of the institution with a high degree of integrity;
- Define appropriate governance policies and practices for the Bank and for its own work, and to establish means to ensure that such are followed and periodically reviewed for ongoing improvement; and
- Constitute committees.

Board Composition

As of December 31, 2013, the Board is comprised of nine members, of which one is an executive director (ED), five are non-executive directors (NED), two are independent directors (ID), and one is the Corporate Secretary (resigned in February, 2014). There is a balance of power and authority at Board level to ensure that no one director has unfettered powers of decision making.

Board of Directors Meetings

Directors	Board Position	No. of Meetings	Attended	%
Jacinto L. Ng, Sr.	Chairman	12	12	100
Ramon Y. Sy *	Vice Chairman	12	11	92
Abraham T. Co	Director/President	12	12	100
Jonathan C. Ng	Director	12	12	100
Lily K. Gruba	Director	12	11	92
George T. Chua	Director	12	12	100
Adolfo S. Azcuna	Independent Director	12	12	100
Benjamin E. Diokno	Independent Director	12	12	100

* A Request for Confirmation of the status of Mr. Ramon Y. Sy as Independent Director dated March 20, 2014 is pending before the Bangko Sentral ng Pilipinas (BSP). Mr. Sy is nominated as Independent Director subject to the resolution of the matter by the BSP.
 **One of the non-executive directors, Mr. Lin Hong Dow, resigned in March 2013.
 ***The Corporate Secretary, Atty. Ma. Pilar Martinez-Caedo, resigned in February 2014.

CORPORATE GOVERNANCE

Board Committees

The Board has created five Board-level committees and two sub-committees under the Corporate Governance Committee in order to increase efficiency and allow deeper focus in specific areas. The Board has appointed members of each committee, taking into account the optimal mix of skills and experience to allow the members to fully understand, be critical, and objectively evaluate the issues.

Committee Memberships and Attendance in Meetings

Committees and Members		No. of Meetings	Attended	%
Executive Committee				
Jacinto L. Ng, Sr.	50	50	100	
Abraham T. Co	50	100		
Jonathan C. Ng	50	0	100	
Jacob C. Ng	50	50	100	
Audit Committee				
Adolfo S. Azcuna, <i>Chairman, ID</i>	6	6	100	
George T. Chua, <i>Vice Chairman</i>	6	6	100	
Lily K. Gruba	6	6	100	
Benjamin E. Diokno, <i>ID</i>	6	6	100	
Jacob C. Ng	6	6	100	
Florante C. del Mundo	6	6	100	
Internal Audit (non-voting)	6	6	100	
Risk Oversight Committee				
(Risk Management Committee)				
Benjamin E. Diokno, <i>Chairman, ID</i>	12	12	100	
Ramon Y. Sy*	12	9	75	
Adolfo S. Azcuna, <i>ID</i>	12	0	0	
Jonathan C. Ng	12	0	0	
Maria Teresa Ogbinar†	12	12	100	
* Non-voting				
† In 2014, the composition of the Risk Oversight Committee was reduced to three: Dr. Diokno, Mr. Sy, and Miss Ogbinar.				
Trust Committee				
Ramon Y. Sy*, <i>Chairman, ID</i>	4	4	100	
Abraham T. Co	4	4	100	
Jonathan C. Ng	4	2	50	
Andrew Chua	4	4	100	
Corporate Governance Committee				
Lily K. Gruba*, <i>Chairman, ID</i>	6	6	100	
George T. Chua	6	6	100	
Adolfo S. Azcuna, <i>ID</i>	6	6	100	
Benjamin E. Diokno, <i>ID</i>	6	6	100	
* Atty. Gruba was temporarily appointed as Chairman of the Corporate Governance Committee pending the appointment of a third independent director.				

Remuneration

The Bank and its subsidiaries (Group) aim to attract, motivate, and retain employees through a competitive salary scheme which includes both direct (salary and cash-related) and indirect (non-cash benefits) compensation. It is the Group's policy to offer a compensation package that is fair and competitive with the current market rates of the industry.

As of December 31, 2013, the Group does not have a fixed incentive program in place.

Other than payment of a reasonable per diem as may be determined by the Board for every meeting, there were no standard arrangements pursuant to which directors of AUB are compensated, or were compensated, directly or indirectly, for any services provided as a director and for their committee participation or special assignments for 2013.

The per diem given to Directors of the Group, which were approved by the Board Remuneration Committee amounted to Php3.66 million in 2013.

Sub-Committee Memberships and Attendance in Meetings

Sub-Committees and Members	
Performance Evaluation, Compensation, Remuneration Sub-Committee	
Abraham T. Co, <i>Chairman</i>	
Adolfo S. Azcuna, <i>ID</i>	
Benjamin E. Diokno, <i>ID</i>	
Rosario Dayrit	
* The Performance Evaluation, Compensation, Remuneration Sub-Committee did not conduct a meeting in 2013.	
Nomination Sub-Committee	
Abraham T. Co, <i>Chairman</i>	
Adolfo S. Azcuna, <i>ID</i>	
Benjamin E. Diokno, <i>ID</i>	
Rosario Dayrit	
* The Nomination Sub-Committee did not conduct a meeting in 2013, but met on May 9, 2014.	

REPORT OF THE CHIEF AUDIT EXECUTIVE

Asia United Bank was granted authority to operate as Commercial Bank under MB Resolution No. 1149 dated September 3, 1997, and commenced operation on October 31, 1997.

AUB has upgraded its status to a universal bank after completing regulatory requirements and getting the authority from the Bangko Sentral ng Pilipinas (BSP) under MB Resolution No. 356 dated February 28, 2013. The universal banking license will allow AUB greater flexibilities to further expand consumer ending, credit card operations, banking services and engage in investment banking activities.

As of April 22, 2013, AUB has secured the approval of the Securities and Exchange Commission (SEC) to go public. AUB listed its shares on the Philippine Stock exchange on May 17, 2013.

As of December 31, 2013, AUB had 163 branches in Metro Manila and in the key cities of Luzon, Visayas, and Mindanao. AUB subsidiaries, namely the Rural Bank of Angeles has 13 branches and five Micro Banking offices in Northern Luzon, while Cavite United Rural Bank has five branches in southern Luzon.

Governance Structure

The Audit Committee serves as an independent oversight body of the Board of Directors. Its role is to ensure that the Bank has strong and effective processes relating to independence, governance, risk management, internal control, compliance, and financial reporting.

In compliance with SEC Memorandum Circular No. 4 series of 2012, the AUB Audit Committee performed its oversight responsibilities and conducted regular special meetings that focused on organizational and procedural controls; reviews on branches and head office units; systems and applications; special investigation cases; and details on internal control compliance. Also discussed were regulatory compliance updates and risk management functions specifically in the areas of managing credit, market, liquidity, operational and other risks of the Bank.

Among the items that the Audit Committee reviewed and approved in 2013, with the assistance of internal and external auditors, were the following:

1. Updated and approved Audit Committee Charter.
2. The 2014 Annual Internal Audit Plan using the Risk-

3. Based Approach;
3. Revised Internal Audit Risk-Based Planning Framework and Internal Audit
4. Revised Risk-Based Audit Rating System for Information Technology and Head Office;
5. Recommend SGV and Co. as AUB's External Auditor to be appointed by the Stockholder.
6. 2013 year end review conducted by external audit firm SGV and Co.;
7. Due Diligence Review of Cooperative Rural Bank of Bulacan (CRBB);
8. Due Diligence and Takeover Review of Cooperative Bank of Pampanga, Inc.; and
9. External Auditor's Financial Report for 2013.

In 2013, the Internal Audit Department performed internal audit assessments of all organization units, based on Audit Plans and Strategies under the Risk-Based Audit Approach, in accordance with the Generally Accepted Auditing Standards as approved by the Audit Committee.

The Audit Department noted some areas that needed to be improved in the Bank's internal control procedures. These were immediately raised to the Bank's management team and necessary corrective actions were made.

Risk Procedures

Audits are conducted using the Risk Assessment methodology. Evaluating the "risk" takes into consideration the extent of the potential "loss" and the "probability" that the loss will occur.

An established Rating System provides the statistical support to the assessment of the area being audited, which aims to minimize any subjectivity. It takes into consideration the gravity of the findings against each category being rated.

AUB engages to review internal control processes related to the disclosure of financial statements, with emphasis on due professional care in the conduct of audit reviews and examinations. It also reviewed and recommended to the Board of Directors the approval and revisions of the Bank's Compliance Manual and Anti-Money Laundering Manual.

The Audit Committee found that the Bank's organizational network of risk management, control and governance processes, as designed and presented by management, are generally adequate and functioning.

REPORT OF THE CHIEF AUDIT EXECUTIVE

The Audit Committee has ensured that oversight responsibilities are in compliance with the SEC Circular No. 4 series of 2012 on the Guidelines for the Assessment of the Performance of Audit Committees of Companies Listed on the Exchange.

The current Internal Controls and Credit Policies of the Bank were also consistently rated by the BSP at acceptable CAMEL rating for the past five years. The Bank's CAMEL rating of "3.00" indicates that AUB is a fundamentally sound financial institution. Moreover, the past-due ratio of its combined consumer and commercial loan portfolio was a mere 2.1% above the industry average of 2.6%.

The Internal Audit Department, together with AUB's External Auditors and the Audit Committee, have ensured that good governance is practiced in the Bank as prescribed by SEC Circular No. 2 and Bangko Sentral ng Pilipinas Circular No. 499 dated November 25, 2005 on the role of the Audit Committee and the External Auditors.

Internal Audit and Compliance

AUB has established internal controls and systems in various areas of its operations to protect it from risks intrinsic in its business. Its Internal Audit Group evaluates the effectiveness of these control systems and compliance programs, and recommends measures to improve governance, risk management, and internal control processes.

The Bank has a three-pronged approach to ensuring compliance within the organization:

- Its Auxiliary Compliance Officers or Compliance Coordinators conduct random compliance testing to develop a compliance culture across the ranks. A reporting process helps the Chief Compliance Officer and Chief Audit Executive detect any regulatory infractions.
- Its Internal Audit conducts regular reviews of AUB branches and other operating units. Independent Compliance Testing is conducted to ensure compliance with anti-money laundering rules and other regulatory requirements.
- Its Compliance Office performs oversight function to validate the findings of the Compliance Coordinators and Internal Auditors. The Chief

Compliance Officer also conducts random visits to Asia United Bank branches and head office units to check the progress of compliance testing. The Chief Compliance Officer also continues to conduct Quarterly Compliance Forums to regularly update all Compliance Coordinators/Auxiliary Compliance Officers and Internal Audit Officers on recently issued regulatory requirements. These sessions serve as a venue to conduct enhancement, updates and training on compliance Testing, Corporate Governance, and CAMELS.

The Chief AMLA Compliance Officer conducts regular meetings, training to the officers and staff of the bank on AMLA matters, updates the AMLA Committee for AMLA issues raised by audit and/or BSP.

Corporate Governance

In 2013, AUB revised its Manual on Corporate Governance to fully comply with the new requirements of the BSP, specifically compliance to Annual Corporate Governance Report (ACGR).

The Bank's Corporate Governance Committee regularly met in 2013 to discuss matters prescribed in the Corporate Governance Committee Charters.

A Corresponding Corporate Governance Scorecard was accomplished by each individual directors of the bank on September 27, 2013, as required under BSP Circular Letter CL-2010-060 dated 29 September 2010.

AUB also submitted to the SEC its Corporate Governance Manual Evaluation Sheet for 2012, as required under SEC Circular No. 2 dated 5 April 2002. The Bank has substantially complied with these requirements.

The Bank also ensures that all its employees undergo the basic Anti-Money Laundering (AML) training. For frontliners and officers, the Bank conducts seminars for an in-depth understanding of AMLA regulations and its applications in day-to-day banking transactions. The Bank safeguards against money laundering and cuts possibly fraudulent accounts by strictly adopting Know-Your Customers business principles.

Moving Forward

AUB believes that building a culture of compliance will help mitigate risks and prepare the Bank to face regulatory demands. It aims to combine the strength of its workforce with technology to have an effective operating framework that delivers needed competencies and long-term results. It expects to transform these Bank-wide programs into a business culture that upholds fairness, accountability and transparency in all aspects of its operations.

The Audit Committee will ensure compliance to the newly issued BSP Circular 706 in developing Asia United Bank Money Laundering and Terrorist Financing Program and its implementation.

The Audit Committee is continuously improving the process and methodologies of audit to improve effectiveness and efficiency of the Audit Department. In Year 2013, Internal Audit revised and improved its audit programs using Computer Assisted Audit Techniques (CAATS). As a result, the field mandays of the auditor in audit engagement was reduced. Internal audit will continue to search for audit software to further improve audit process.

Report to the Board of Directors

As part of the Audit Committee's Charter, the Committee is delegated to provide oversight of the Bank's financial reporting and disclosures; management and control; risk management activities; and internal and external audit functions. It is also responsible in monitoring and evaluating the Bank's compliance with applicable laws, rules and regulations as well as the adequacy and effectiveness of the internal control system.

Management is responsible for the preparation, integrity, and fair presentation of the Bank's financial statements, which were prepared in accordance with Philippine Financial Reporting Standards.

In 2013, the Audit Committee, composed of members of the Board of Directors, two of whom are independent directors, discussed the following in its monthly meeting:

- Approval of the overall scope and plans of the Internal Audit Group (IAG), Compliance Unit and the AUB's External auditor, SGV & Co.;

- Reviewed AUB's 2013 financial statements with SGV, which was responsible for expressing an independent opinion on the audited financial statements and its conformity with Philippine Financial Reporting Standards;
- Reviewed AUB's Management Responsibility, Risk Management Reports and Quarterly/Annual unaudited Financial Statements;
- Reviewed of the results of IAG's examinations and evaluation of internal control process along with management's responses and timetable for the implementation of recommendations to improve the operations of the branches and head office units, including the information systems and security;
- Evaluated the process of assessing the significant risks and related-risk mitigation efforts of the Bank;
- Reviewed the adequacy of resources, staff competencies, activities, and effectiveness of the IAG;
- Reviewed the result of the periodic internal quality assessment of IAG's conformance with the International Professional Practices Framework for Internal Auditing, which includes the Definition of Internal Auditing, Code of Ethics, and the Standards. This includes Quality Assurance Review of Audit's function as concurred by SGV's year-end review.
- Monitoring and assessment of the Bank's compliance with existing laws, rules, and regulations.
- Results of IAG's Review on Cooperative Bank of Pampanga, Inc. takeover.

The Audit Committee continues to assure depositors and stakeholders that Internal Procedures and Risk Management Practices will always be adequate and effective in guarding the assets of the Bank.

(Ret.) Justice Adolfo S. Azuna
Audit Committee Chairman

BOARD OF DIRECTORS

Abraham T. Co
President and Director

President of the Bank since June 1997. Currently the Chairman/Director of the following AUB subsidiaries: Asia United Leasing and Finance (AULFC), Rural Bank of Angeles (RBA), and Covite United Rural Bank Corporation (CURB). Formerly the President of First Malaysian Leasing and Finance Corporation, Head of the Consumer and Operations Support Group at Rizal Commercial Banking Corporation, and the President of BA Finance Corporation. Holds a B.S. degree in Chemical Engineering from the University of the Philippines.

Jacinto L. Ng, Sr.
Chairman

First elected as Chairman of the Board in 1991. Served as Chairman and/or Director of Republic Biscuit Corporation (Rebisco) and Extraordinary Development Corporation. Holds a B.S. in Chemical Engineering from the Mapua Institute of Technology.

Ramon Y. Sy
Vice Chairman

Director and Vice Chairman of the Board and was first elected to the Board in March 2012. Currently the Chairman of Bamsy Corporation and Xcell Property Ventures, Inc. Holds directorship positions in Meridian Assurance Corporation, Travelman, Inc., SPC Corporation, Asian Alliance Holding and Development Corporation, Asian Alliance Investment Corporation, and Philippine Equity. Served as Chairman of the Board of Trustees of Operation Smile Philippines, Chairman and CEO of the United Coconut Planters Bank, United Coconut Planters Life Assurance Corporation, and UCPB General Insurance Co., Inc. Held directorship positions with International Exchange Bank. Holds a Bachelor's degree in Commerce from Far Eastern University, an MBA from the University of the Philippines, Doctor of Public Administration (Honoris Causa) from Centro Escolar University, and Doctor of Humanities from Far Eastern University.

Adolf S. Azcuna
Independent Director

Independent Director of the Bank since August 2011. Serves as an Independent Director in RBA and CURB, both AUB subsidiaries. Holds the position of Chancellor of the Philippine Judicial Academy (PHILJA) of the Supreme Court of the Philippines. A former Partner of Azcuna, Yorac, Samiento, Arroyo, and Chua Law Firm. Served as an Associate Justice of the Supreme Court of the Philippines from 2002 to 2009; Chairperson of Philippine National Bank; Director of the Development Bank of the Philippines; and the Chief Presidential Legal Counsel, Press Secretary, and Spokesperson under President Corason C. Aquino. Obtained his law degree from the Ateneo de Manila University and holds a post-graduate certificate from the Salzburg University.

Benjamin E. Diokno
Independent Director

Independent Director of the Bank since August 2011. Currently an Independent Director in RBA and CURB, both AUB subsidiaries. A retired professor in the School of Economics of the University of the Philippines. Held various government positions; namely, Secretary of the Department of Budget and Management; Fiscal Adviser at the Office of the Senate President; Philippine Senator, Chairman and CEO of Philippine National Oil Company; Chairman of the Board of Local Water Utilities Administration; and Undersecretary of Department of Budget and Management. Holds multiple degrees, including an A.B. in Public Administration, a Master's degree in Public Administration, and a Master's degree in Economics, all from the University of the Philippines; as well as a Master's degree in Political Economy and a PhD in Economics from the Maxwell School of Citizenship and Public Affairs at Syracuse University.

Jonathan C. Ng
Director

Appointed Director of AUB in 1998. Currently serves as director of AULFC, President of Rebisco, and Vice President of Suncrest Food Corporation. Holds an A.B. degree in Management Economics from the Ateneo de Manila University.

Lily K. Gruba
Director

Director of AUB since 2003. Managing partner of Zambrano & Gruba Law Offices and a Director of ZG Global Advisors Corp. Held various positions in government, such as Director of the Philippine Economic Zone Authority, Director of Overseas Workers Welfare Administration, and Undersecretary of the Department of Finance. Associate Dean for Continuing Legal Education and a Professor of the Ateneo de Manila Law School. Holds a B.S. degree in Psychology from the University of Santo Tomas, a law degree from Ateneo Law School, and a Masters of Law degree from the Georgetown School of Law.

George T. Chua
Director

Elected Director of AUB in July 1998. Serves as a Director of AULFC, RBA, and CURB, and Chairman of the Board of Quantavis Resources Corp. Serves concurrently as Director/President of Manila Bay Development Corporation, Manila Bay Venture Capital Corporation, and Ciudad Nueva Realty Corporation, as well as the President of Great Jubilee Development Corporation. Holds a B.S. degree in Management Engineering from the Ateneo de Manila University.

Maria Pilar Martinez-Caedo
Corporate Secretary

Served as Corporate Secretary of AUB and RBA in 2013 until February 2014. Holds a bachelor's degree in History and a Bachelor of Laws from the University of the Philippines.

MANAGEMENT TEAM



Antonio V. Agcaoili, Jr.
Executive Vice President



Manuel A. Gomez
Executive Vice President



Isabelita M. Papa
Executive Vice President



Aristides S. Armas
Senior Vice President



Andrew A. Chua
Senior Vice President



Eduardo I. Conde
Senior Vice President



Rosario M. Dayrit
Senior Vice President



Herminia C. Musico
Senior Vice President



Jorge S. Payawal
Senior Vice President



Florante C. Del Mundo
Senior Vice President



Willy G. Ng
Senior Vice President

MANAGEMENT TEAM



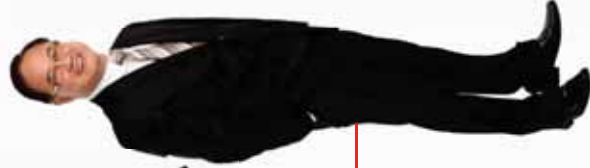
Wilfredo E. Rodriguez, Jr.
Senior Vice President



Vicente Julian A. Sarza
Senior Vice President



Rosendo G. Sia
Senior Vice President



Sandy W. Tan
Senior Vice President



Catherine C. Uy
Senior Vice President



Maria Isabel V. Antonio
First Vice President



Jose A. Camello
First Vice President



Christine T. Chan
First Vice President



Joselito R. Camagong
First Vice President



Ma. Teresa M. Copo
First Vice President

MANAGEMENT TEAM



Leonides F. Intalan
First Vice President



Zenaída S. Librea
First Vice President



Joselito R. Jacob
First Vice President



Rosalyn L. Martinez
First Vice President



María Teresa C. Ogbinar
First Vice President



Lela S. Quijano
First Vice President



Andrew T. Yap
First Vice President



Amelia S. Sison
First Vice President



Belinda C. Rodriguez
First Vice President



Annette R. Manapil
First Vice President

SENIOR OFFICERS

As of April 30, 2014

VICE PRESIDENTS

Aldwin Christian C. Ang
Reynaldo T. Boringot
Ronald B. Bugayong
Domingo F. Claro
Leah C. Co
Rainer T. Defante
Ma. Elizabeth V. Dela Paz
Eddie Abel C. Dorotan
Lourdes D. Foronda
Ariel L. Garces
Emmanuel Luis U. Gervasio
Marie Khristine P. Gutierrez
Rolando L. Libunao
Zita M. Los Baños
Desiree Mae D. Lumanog
Orman O. Manansala
Ven V. Martelino
Rodolfo C. Mateo
Elizabeth T. Miranda
Jacob C. Ng
Rachelle Dy S. Ng
Ana Lina S. Palma
Soledad O. Reyes
Albert T. Reyes
Louie S. Santos
Ma. Trinidad O. Songco
Maria Magdalena V. Surtida
Gilda C. Tiongco

ASSISTANT VICE PRESIDENTS

Ma. Theresa E. Abad
Jill Mae J. Ang
Raquel N. Avena
Elsa R. Bañez
Anna Maria Carmencita L. Bautista
Techie M. Buenaventura
Raymund Joseph R. Calsado
Irene T. Ching
Lily Ann M. Chua
Mariflor L. Cruz
Christopher P. Cura
Robert Frederick P. Dy
Fermin F. De Guzman
Reginald Neil P. Garcia
Emily S. Go
Jocelyn G. Hernandez
Louie S. Landayan
Nora G. Li
Celestina S. Lopez
Ma. Bernadette Y. Lozada
Raymund M. Mangahas
Alan R. Marbella
Marichie O. Nacion
Eileen C. Ng
Jeffrey D. Panglinan
Ling Ling N. Ponce
Dioscoro T. Reyes
Kristeen Ella M. Reyes
Farley O. Silva
Bienvenido Giancarlo A. Sioson
Christine M. Tan
Mimi Tan To-Santos
Vina C. Trinidad
Ronald Y. Villanueva
Victor B. Viray
Emily C. Wong

SENIOR MANAGERS

Virginia A. Abrigo
Joan Ann P. Agravio
Ma. Cristina P. Amar
Ernesto C. Ancheta
Marilou C. Angeles
Rachel Louise S. Arnaez
Vilma P. Arroyo
Editha N. Baronio
Edward T. Barretto
Noemi P. Bernardino
Filipinas L. Bonagua
Riconael D. Calimbahin
Januarie S. Calzado
Domingo S. Canlas
Christine T. Chan
Margaret Rose A. Chua
Yong Chua, Jr.
Joanna Patricia L. Crisostomo
Peter G. Cuntapay
Elie P. Curan
James A. De Guzman
Laidy Claire C. Dela Rosa
Albert Antonio M. Estrellado
Philip C. De Miguel
Gladioli C. Driesmos
Samuel S. Dogillo
Gerardino P. Eforiaga
Lyndo Marie S. Esteban
Teresa Socorro S. Feraren
Cynthia L. Gadia
Marito B. Gallego
Ma. Gracia M. Gordo
Jonafel E. Infante
Marilyn H. Inigo
Victor A. Jose III
Emelie C. Lao
Daisy V. Laude
Manuel E. Longos
Ricardo T. Mallari
Ranilo B. Maninang
Elmo C. Medina

Patricio B. Mercado
Armando K. Milanes
Elsie J. Nunez
Melamor B. Oduio
Ramoncito Tomas F. Pacis
Ma. Del Carmen B. Palma
Ma. Morella R. Palmones
Maritess V. Pascual
Orlando I. Peralta
Benjamin O. Pore, Jr.
Ramon O. Quemuel
Gail A. Quizon
Bernadette A. Ramos
William Y. Rasines
Remelyn C. Rodriguez
Eduardo Arsenio C. Roldan
Maria Carmen B. Ruelos
Jerilee Mae C. Sanidad
David S. Sarte
Ma. Jasmin A. Sevilla
Gladys D. Sy
Ruby A. Tan
Karla Andrea M. Ubalde
Armando G. Velasquez
Mary Ann E. Ventura
Cristina A. Vicente
Danilo B. Victorio
Leslie W. Villegas
Michelle U. Yang
Ma. Alma C. Yap

MANAGERS

Michael Thomas S. Acosta
Juliet P. Acuna
Ma. Marilyn V. Ahorro
Ronald T. Alava
Tina Simcha L. Alcantara
Reynaldo B. Alip
Ofelia R. Alvarez
Von Czar M. Amora
Ma. Lourdes P. Andam

Anna Larissa G. Andan
Elaine Marie T. Ang
Lisette L. Araneta
Jennifer P. Balingit
Leo T. Balinquit
Maria Yvette B. Baria
Virgilio S. Bordeos
Tristan Jorel R. Calixto
Francis Raymond A. Canillas
Dennis L. Carandang
Marirose V. Chavez
Gwyn I. Clarisa
Melissa C. Climaco
Remedios E. Coronel
Ofelia C. Corpuz
Karen S. Cua
Crislyn R. David
Alvin Teodoro P. Dayauon
Edward A. Escalante
Nanette L. De Jesus
Lucita S. Dee
Rowena L. Dela Cruz
Dickson H. Dimaandal
Hermin A. Dolorito
Welma T. Donguines
Ma. Theresa Lynn DJ. Egusquiza
Janel P. Flores
Shellane V. Gabas
Errol Joe E. Gabe
Jocelyn F. Gabe
Ana Maria N. Garcia
Aldwin B. Giray
Manuel L. Goli
Roberto Alejo A. Gorgonia
Beverly L. Gumatic
Reynaldo DC. Halasan
Cecilia F. Hufana
Maria Celina N. Inigo
Anna Patricia T. Jhocson
Aida S. Jimenez
Katherine I. Jose
Richard M. Laguardia
Jenyline C. Layson

Catherine J. Ledesma
Mary Ann S. Lee
Viviana Y. Lee
Donna L. Lim
Wendrich S. Lim
Jimpson R. Lim
Shella Marie E. Lipio
Maria Carla P. Manalo
Ma. Victoria S. Manalo
Ozelle T. Mendoza
Myra M. Mercado
Yvonne T. Morales
Josefina G. Ong
Rosalinga M. Parangit
Marife D. Paz
Jacquelyn C. Pornel
Alicia Y. Remedio
Joydee B. Riñon
Paulo C. Rivera
Ricon C. Roble
Elvira R. Royales
Rachel R. Saddam
Jhoanna L. Sanchez
Rochelle R. Santos
Jennifer M. Santos
Rosalinda T. Sarreal
Edfort A. Sengson
Racquel B. Serrano
Leia Vernease O. Tan
Bernadette T. Tiongson
Raymond Joseph T. Trajano
Shiela P. Trinidad
Maribel V. Toriente
Rosalee S. Torres
Betty L. Ty
Marcos Ronald L. Villahermosa
Raul M. Villanueva II
Higenia H. Villaseran
Joaquin K. Wong, Jr.
Aurora S. Ybasco
Sheila M. Yongque
Stephany V. Yu

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The management of Asia United Bank Corporation is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2013 and 2012, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

Sycip Gorres Velayo & Co., the independent auditors, appointed by the stockholders, has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.



Jacinto L. Ng, Sr.
Chairman of the Board



Abraham T. Co
Chief Executive Officer



Herminia C. Musico
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Asia United Bank Corporation and Subsidiaries
Joy-Nostalg Center
17 ADB Avenue, Ortigas Center, Pasig City

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Asia United Bank Corporation and Subsidiaries (the Group) and the parent company financial statements of Asia United Bank Corporation (the Parent Company), which comprise the statements of condition as at December 31, 2013 and 2012, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated and parent company financial statements referred to above present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2013 and 2012, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulation 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information requirement under Revenue Regulation 15-2010 in Note 39 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Asia United Bank Corporation. The information has been subjected to the auditing procedures applied in our 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.

SYCIP GORRES VELAYO & CO.

Janet A. Paraiso
Partner

CPA Certificate No. 92305

SEC Accreditation No. 0778-AR-1 (Group A),

February 2, 2012, valid until February 1, 2015

Tax Identification No. 193-975-241

BIR Accreditation No. 08-001998-62-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 4225147, January 2, 2014, Makati City

March 21, 2014

See accompanying Notes to Financial Statements.

See accompanying Notes to Financial Statements.

See accompanying Notes to Financial Statements.

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

Parent	Consolidated				Parent Company			
	Years Ended December 31							
	2013	2012	2011	2010	2013	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES								
Income from operations	P1,644,639,590	P1,366,624,414	P1,160,934,336	P1,160,934,336	P1,582,882,573	P1,339,861,861	P1,162,431,400	P1,162,431,400
Adjustments for:								
Trading gains from sale of available-for-sale investments (Note 8)	(918,025,825)	(618,400,780)	(371,970,205)	(371,970,205)	(874,989,625)	(593,648,599)	(355,951,536)	(355,951,536)
Provision for credit and impairment losses (Note 16)	310,925,992	425,468,974	425,212,776	425,212,776	296,205,648	412,496,810	380,743,184	380,743,184
Depreciation and amortization (Notes 11 and 12)	306,489,912	197,212,438	168,044,236	168,044,236	273,455,140	192,482,686	164,130,896	164,130,896
Gain on sale of investment properties (Note 12)	(306,394,124)	(22,238,265)	(3,242,683)	(3,242,683)	(303,938,841)	(19,397,299)	(1,231,654)	(1,231,654)
Gain on bargain purchase (Note 36)		(16,666,633)				(16,666,633)		
Amortization of intangible assets (Note 14)	14,664,076	9,011,723	8,630,429	8,630,429	14,175,580	9,011,723	8,125,649	8,125,649
Dividend income (Note 8)	(13,790,806)	(4,670,031)						
Loss (gain) on disposal of property and equipment (Note 11)	373,238	(3,323,290)	(2,608,735)	(2,608,735)	679,855	(3,151,352)	(2,608,735)	(2,608,735)
Gain on foreclosure and decision transactions (Note 12)	(23,696,246)	(2,512,773)	(11,651,871)	(11,651,871)	(6,536,398)	(97,968)	(2,163,644)	(2,163,644)
Write-off of intangible assets	522,421				522,421			
Gain on dissolution of Asia United Bank Corporation (AUGC) (Note 10)					(12,256,394)			
Changes in operating assets and liabilities:								
Decrease (increase) in the amounts of:								
Loans and receivables	(12,862,725,494)	(5,154,983,112)	(3,646,349,869)	(3,646,349,869)	(12,540,338,231)	(5,377,248,102)	(8,570,764,019)	(8,570,764,019)
Financial assets at fair value								
Net gain on profit or loss	(2,468,089,215)	(206,303,162)	(313,310,882)	(313,310,882)	(2,598,002,848)	(157,383,855)	(313,310,882)	(313,310,882)
Interbank loans and receivables	(16,383,664)	33,831,151	(326,430,552)	(326,430,552)	(16,383,664)	39,655,546	(31,476,436)	(31,476,436)
Other assets	(125,926,452)				(83,168,977)			
Increase (decrease) in the amounts of:								
Deposits	26,619,425,218	4,238,539,122	1,483,593,911	1,483,593,911	26,480,107,668	4,054,939,319	1,551,920,987	1,551,920,987
Due from banks	838,560,361	(1,600,601)	(1,600,601)	(1,600,601)	838,560,361	(1,600,601)	(1,600,601)	(1,600,601)
Due from officers								
Manager's checks	350,849,065	(96,909,865)	100,974,758	100,974,758	350,849,065	(96,909,865)	100,974,758	100,974,758
Accrued taxes, interest and other expenses	79,307,874	(19,315,581)	(107,925,316)	(107,925,316)	83,950,712	(15,340,055)	(103,985,873)	(103,985,873)
Other liabilities	(1,768,951,593)	643,606,815	(78,458,947)	(78,458,947)	(1,826,926,742)	596,775,206	(85,462,763)	(85,462,763)
Net cash generated from (used in) Operations	11,361,607,544	578,156,787	(1,339,026,653)	(1,339,026,653)	11,358,580,519	173,786,125	(1,221,026,708)	(1,221,026,708)
Income taxes paid	(130,941,226)	(95,797,377)	(1,363,637,028)	(1,363,637,028)	(124,467,036)	(89,086,649)	(129,596,719)	(129,596,719)
Dividends received	13,790,806	4,670,031						
Net cash provided by (used in) operating activities	11,244,457,124	487,029,501	(1,474,663,681)	(1,474,663,681)	11,234,113,483	84,599,476	(1,350,623,427)	(1,350,623,427)
CASH FLOWS FROM INVESTING ACTIVITIES								
Acquisition of:								
Branch licenses (Note 14)	(18,000,000)	(19,880,000)	(2,800,000)	(2,800,000)	(18,000,000)	(19,880,000)	(2,800,000)	(2,800,000)
Software costs (Note 14)	(19,680,741)	(19,965,625)	(2,044,334)	(2,044,334)	(19,284,791)	(18,028,452)	(1,607,634)	(1,607,634)
Property and equipment (Note 11)	(934,053,103)	(252,355,108)	(161,992,938)	(161,992,938)	(576,781,318)	(244,621,675)	(156,242,224)	(156,242,224)
Available-for-sale investments	(30,227,623,228)	(36,238,111,936)	(20,924,082,936)	(20,924,082,936)	(28,923,156,712)	(35,573,138,233)	(20,627,487,836)	(20,627,487,836)
Proceeds from sale/maturities of:								
Available-for-sale investments	15,190,953,209	34,823,421,933	24,177,178,519	24,177,178,519	13,935,583,628	34,777,737,101	23,771,624,168	23,771,624,168
Investment properties	645,317,142	72,550,170	40,410,304	40,410,304	627,756,938	106,228,450	34,601,377	34,601,377
Property and equipment	19,244,061	17,634,635	5,551,244	5,551,244	16,498,148	13,270,769	5,274,342	5,274,342
Investment in and advances to a subsidiary (Note 10)								
Advances to Cooperative Bank of Pampanga								
Transfer to surplus reserves								
Loss on remeasurement of retirement obligation								
Transfer to surplus								
Net cash provided by (used in) investing activities	11,244,457,124	487,029,501	(1,474,663,681)	(1,474,663,681)	11,234,113,483	84,599,476	(1,350,623,427)	(1,350,623,427)

(Forward)

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. General Information

Asia United Bank Corporation (the Parent Company) was granted authority as a commercial bank under the Monetary Board (MB) Resolution No. 1149 dated September 3, 1997 and commenced operations on October 31, 1997.

The Parent Company is a domestic corporation registered with the Securities and Exchange Commission (SEC) on October 3, 1997. The Parent Company provides commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services. In addition, the Parent Company is licensed to enter into regular financial derivatives as a means of reducing and managing the Parent Company's and its customers' foreign exchange exposure.

The Parent Company's principal place of business is located at Joy-Nostalg Center, 17 ADB Avenue, Ortigas Center, Pasig City. The Parent Company operates through its 163 and 107 domestic branches as at December 31, 2013 and 2012, respectively.

On February 28, 2013, the MB approved the Parent Company's application for a universal banking license, which authorizes the Parent Company, in addition to its general powers as a commercial bank to exercise the following: (i) the power of an investment house, including securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity securities, project finance and direct equity investment; and (ii) the power to invest in allied and non-allied enterprises, subject to regulatory caps on the amount of investment relative to the Parent Company's capital and ownership percentage.

The Parent Company's common shares were initially offered to the public and were listed at the main board of the Philippine Stock Exchange (PSE) on May 17, 2013.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements include the consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to as "the Group") as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, and of the Parent Company as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013.

Philippine Financial Reporting Standards (PFRS) requires that the Group presents an additional statement of financial position at the beginning of the earliest prior period presented when there is retrospective application of an accounting policy, a retrospective restatement or a reclassification of items in the financial statements. Accordingly, the Group presents an additional statement of condition as at January 1, 2012 as the Group adopted the amendments to Philippine Accounting Standards (PAS) 19, *Employee Benefits*, on January 1, 2013, the effective date of the amendments, which require retrospective application (see Notes 2 and 24). In addition, the Group finalized the purchase price allocation with respect to the acquisitions of Asiatrust Development Bank (ATB) in June 2012 and Cooperative Bank of Cavite in September 2012 which also requires retrospective restatement of the consolidated financial statements as at and for the year ended December 31, 2012 (see Notes 35 and 36).

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

The accompanying financial statements of the Parent Company reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The books of accounts of the RBU are maintained in Philippine peso, the RBU's functional currency, while those of the FCDU are maintained in United States dollars (USD), the FCDU's functional currency. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see policy on the Foreign Currency Translation).

	Consolidated		Parent Company	
	2013	2012	2013	2012
Cash paid to the non-controlling interest of AUGC (Note 10)				
Cash received from the dissolution of AUGC (Note 10)	(860,360,489)		28,256,394	
Cash received from FDC assistance (Notes 18 and 35)		1,277,000,000		1,277,000,000
Net cash acquired (paid) from acquisition of investment Bank (Note 36)		821,568,203		821,568,203
COAV (Note 36)		(64,294,677)		(90,810,918)
Investment in CUBB (Note 39)				(44,627,335)
Investment in Rural Bank of Angeles				
Net cash provided by (used in) investing activities	(15,605,915,083)	427,567,595	(15,129,127,713)	944,697,910
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from the issuance of AUGC (Note 10)	82,185,117,015	9,853,334,325	81,761,433,748	7,221,964,636
Proceeds from issuance of stocks	(75,804,013,626)	(7,779,016,694)	(75,760,169,245)	(6,071,613,076)
Transaction costs on issuance of stocks	7,936,334,200		7,936,334,200	
Advances from non-controlling shareholder interest (Note 29)	(478,111,639)		(478,111,639)	
Net cash provided by (used in) financing activities	20,000,000	31,000,000	13,459,487,064	1,150,349,560
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENT				
NET INCREASE IN CASH AND CASH EQUIVALENTS	36,433,127	(63,722,792)	36,433,127	(53,722,792)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,534,301,118	2,161,132,935	9,600,905,961	2,126,024,154
Cash and other cash items	1,729,912,337	982,690,319	1,726,096,514	976,762,062
Due from Banko Sentral ng Pilipinas	9,493,667,377	5,539,785,921	9,484,241,402	5,537,295,450
Due from other banks	1,558,087,601	1,751,650,659	1,435,768,322	1,664,617,091
Interbank loans receivable and securities purchased under resale agreements	6,594,968	2,348,102,449	6,594,968	2,348,102,449
CASH AND CASH EQUIVALENTS AT END OF YEAR	12,788,362,283	10,622,229,348	12,652,801,206	10,526,777,052
Cash and other cash items	2,240,332,304	1,729,912,337	2,234,670,917	1,726,096,514
Due from Banko Sentral ng Pilipinas	18,800,513,129	9,493,667,377	18,788,997,740	9,484,241,402
Due from other banks	1,223,631,617	1,558,087,601	1,171,852,159	1,435,768,322
Interbank loans receivable and securities purchased under resale agreements	58,186,351	6,694,968	58,186,351	6,694,968
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS	222,327,663,401	212,788,362,283	222,253,707,167	212,652,801,206

OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS

	Consolidated		Parent Company	
	2013	2012	2013	2012
Interest received	P3,351,712,816	P2,680,189,285	P3,235,264,737	P2,575,330,890
Interest paid	764,809,747	834,754,074	730,430,948	811,380,421
Dividends received	13,790,806	4,670,091	--	--

See accompanying Notes to Financial Statements.

The financial statements individually prepared for these units are combined after eliminating inter-unit accounts. The functional currency of the subsidiaries is the Philippine peso. All values are rounded to the nearest peso except when otherwise indicated.

Statement of Compliance

The financial statements of the Group and of the Parent Company have been prepared in compliance with PFRS.

Presentation of Financial Statements

The Group presents its statement of condition broadly in the order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of condition date (current) and more than 12 months after the statement of condition date (non-current) is presented in Note 21.

Financial assets and financial liabilities are offset and the net amount reported in the statement of condition only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of income unless required or permitted by an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Basis of Consolidation

The Group's consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

Subsidiary	Principal Activities	Country of Incorporation	Effective Percentage of Ownership
Cavite United Rural Bank (CURB)	Rural banking	Philippines	100.00%
Rural Bank of Angeles (RBA)	Rural banking	- do -	96.05%
Asia United Leasing and Finance Corporation (AULFC) and subsidiary	Leasing and financing business	- do -	39.00%
Asia United Forex Corporation (AUFC)*	Foreign exchange services	- do -	31.85%

* As of September 30, 2013, AUFC has been dissolved.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls the investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The financial policies and operations of AULFC and AUFC are controlled by the Parent Company by virtue of the irrevocable voting trust agreement that has the effect of transferring the voting rights of the individual shareholders of the subsidiaries to the Parent Company.

The Group reassess whether or not it has control over an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of condition and statement of income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial

statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary
- derecognizes the carrying amount of any non-controlling interest
- derecognizes the cumulative translation differences recorded in equity
- recognizes the fair value of the consideration received
- recognizes the fair value of any investment retained
- recognizes any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

Non-controlling Interests

Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of condition, separately from Parent Company's shareholders' equity. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in a loss of control interest having a deficit balance. Acquisitions of non-controlling interests that do not result in a loss of control are accounted for as equity transactions, whereby any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the Parent Company.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended standards and interpretations which became effective as of January 1, 2013.

Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Group.

Improvements to PFRSs (2009-2011 cycle)

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*

PFRS 1, Government Loans - Amendments to PFRS 1

These amendments required first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to government loans existing at the date of transition to PFRS. Entities may choose to apply the requirements of PFRS 9 (or PAS 39, as applicable) and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after January 1, 2013.

PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments)

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. Refer to Note 33 for the details and the tabular format of the required offsetting disclosures which the Group retrospectively applied.

PFRS 10, Consolidated Financial Statements

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special

purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

PFRS 11, Joint Arrangements

PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method.

PFRS 12, Disclosure of Interests in Other Entities

PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The Group has no significant interests in joint arrangements, associates and structured entities that require disclosures. Non-controlling interests held in AULFC and AUFC are considered not material to the Group.

PFRS 13, Fair Value Measurement

PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. Refer to Note 5 for the disclosures required by the standard. The new standard has not materially impacted the fair value measurement of the Group.

PAS 1, Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI (Amendments)

The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance.

PAS 19, Employee Benefits (Revised)

PAS 19 (Revised) has been applied retrospectively from January 1, 2011. PAS 19 (Revised) includes a number of amendments to the accounting for defined benefit plan, including actuarial gains and losses that are now recognized in other comprehensive income and excluded permanently from the profit or loss; expected returns on plan assets of defined benefit plans that are not recognized in profit or loss; instead, there is a requirement to recognize interest on net defined retirement obligation (asset) in the profit or loss, calculated using the discount rate used to measure the net defined retirement obligation.

Also, unvested past service costs can no longer be deferred and recognized over the future vesting period. Instead, all past service costs are recognized at the earlier of when the amendment occurs and when the Parent Company recognizes related restructuring or termination costs. Prior to the adoption of PAS 19 (Revised), the Parent Company's unvested past service costs were recognized as an expense on a straight-line basis over the average period until the benefits become vested. Other amendment includes new disclosures, such as quantitative sensitivity disclosures.

The Parent Company reviewed its existing employee benefits and determined that the amended standard has a significant impact on its accounting for retirement benefits. The adoption of PAS 19 (Revised), which require retrospective application, resulted in the restatement of the previously reported financial statements. The Parent Company had chosen to close to "Surplus" the net effect of all transition adjustments amounting to P10.59 million as at January 1, 2011 (the transition date) upon retrospective application of PAS 19 (Revised). At every reporting period, the Parent Company will transfer to "Surplus" the remeasurements recognized in other comprehensive income.

The details of the impact follow:

	Consolidated/ Parent Company	
	As of December 31	As of January 1, 2012
	2013	2012
Increase (decrease) in:		
Statements of condition		
Retirement liability	P175,013,060	P169,965,736
Deferred tax asset	52,503,918	50,989,721
Surplus	(122,509,142)	(118,976,015)
	Consolidated/ Parent Company	
	For the years ended December 31	
	2013	2012
		2011
Increase (decrease) in		
Statements of income		
Compensation and fringe benefits	(P12,715,903)	(P5,259,614)
Income before income tax	12,715,903	5,259,614
Income tax benefit	(3,814,771)	(1,577,884)
Net income for the year	8,901,132	3,681,730
Attributable to:		
Equity holders of the Parent Company	8,901,132	3,681,730
Non-controlling interests		
Basic/diluted earnings per share	0.03	0.02
		0.01
	Consolidated/ Parent Company	
	For the years ended December 31	
	2013	2012
		2011
Increase (decrease) in		
Statements of comprehensive income		
Remeasurement losses on retirement benefit obligation	17,763,228	108,693,023
Income tax effects	(5,328,968)	(32,607,907)
Other comprehensive loss for the period, net of tax	12,434,260	76,085,116
Total comprehensive loss for the year	3,533,127	72,403,386
Attributable to:		
Equity holders of the Parent Company	3,533,127	72,403,386
Non-controlling interests		
		57,165,149

The adoption did not have an impact on the statements of cash flows.

The effects of the amendments to PAS 19 are similar for both the consolidated and Parent Company's financial statements.

PAS 27, Separate Financial Statements (as revised in 2011)

As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries and jointly controlled entities in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

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

As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

Philippine Interpretation (IFIC) 20, *Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. This new interpretation is not relevant to the Group.

Significant Accounting Policies

Foreign Currency Translation

The financial statements are presented in Philippine peso, which is the Parent Company's functional currency. The books of accounts of the RBU are maintained in Philippine peso, while those of the FODU are maintained in US dollar.

RBU

As at reporting date, foreign currency monetary assets and liabilities of the RBU are translated to Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year, and foreign currency-denominated income and expenses, at the exchange rates as at the date of the transaction. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FODU

As at the reporting date, the assets and liabilities of the FODU are translated to the Parent Company's presentation currency (the Philippine peso) at the PDS closing rate prevailing at the statement of condition date, and its income and expenses are translated at PDS weighted average rate for the year. Exchange differences arising on translation to the presentation currency are taken to the statement of comprehensive income under 'Cumulative translation adjustment'. Upon disposal of the FODU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income. The Parent Company adopted this policy when the Bangko Sentral ng Pilipinas (BSP) issued BSP Circular No. 601 on February 13, 2008. This Circular included a provision requiring banks to use USD as the functional currency of its FODU.

Fair Value Measurement

The Group measures financial instruments such as financial assets at FVPL and AFS investments at fair value at each reporting date. Also, fair value of financial assets and liabilities carried at amortized cost and investment properties are disclosed Note 5.

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date
- Level 2 - inputs other than quoted prices included within Level 1 that are observable either directly or indirectly
- Level 3 - inputs are unobservable inputs for the asset or liability

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

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

The Group recognizes financial instruments when, and only when, the Group becomes a party to the contractual terms of the financial instruments.

Regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace, except for derivatives, are recognized on settlement date - the date that an asset is delivered to by the Group. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Group, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Group. Securities transactions are also recognized on settlement date basis. Deposits, amounts due to or from banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Derivatives are recognized on trade date - the date that the Group becomes a party to the contractual provisions of the instrument. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Initial recognition of financial instruments

All financial instruments are initially measured at fair value. Except for financial assets and liabilities valued at FVPL, the initial measurement of financial assets and liabilities includes transaction costs. The Group categorizes its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS investments and loans and receivables, while financial liabilities are classified as financial liabilities at FVPL and other financial liabilities carried at amortized cost. The classification depends on the purpose for which the financial instruments were acquired, its characteristics, and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

'Day 1' difference

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

Derivatives recorded at FVPL

The Group is a counterparty to derivative contracts, such as currency forwards and swaps, warrants, and embedded interest rate options and range accrual. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value.

Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of income and are included in Trading and securities gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For purposes of hedge accounting, hedges are classified as either: a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or c) hedge of a net investment in a foreign operation. For 2013 and 2012, the Group did not apply hedge accounting treatment on its derivative transactions.

The Group has certain derivatives that are embedded in host financial contracts (such as structured notes and debt investments) which consist of range accrual, call and put options.

Embedded derivatives are bifurcated from their host contracts and carried at fair value, with fair value changes being reported in the statement of income, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL, when their economic risks and characteristics are not closely related to those of their respective host contract and when a separate instrument with the same terms as the embedded derivatives would meet the definition of a derivative.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group determines whether a modification to the cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative and the host contract have changed, and whether the change is significant relative to the previously expected cash flows on the contract.

Financial assets held-for-trading

Financial assets held-for-trading are recorded in the consolidated statement of condition at fair value. Changes in fair value relating to the held-for-trading positions are recognized in 'Trading and securities gain(loss) - net'. Interest earned is recorded in 'Interest income', while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

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

Financial assets or financial liabilities designated as FVPL

Upon initial recognition, financial assets or financial liabilities may be designated by management on an instrument-by-instrument basis, when the following criteria are met:

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

Designated financial assets and financial liabilities at FVPL are recorded in the statement of condition at fair value. Changes in fair value are recorded in 'Trading and securities gain - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' according to the terms of the contract, or when the right of payment has been established.

The Group has equity securities which are designated at FVPL.

HTM investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. If the Group sells other than an insignificant amount of HTM investments (other than in specific circumstances), the entire category would be tainted and reclassified as AFS investments. Further, the Group would be prohibited to classify any financial assets as HTM investments for the following two years. After initial measurement, these investments are subsequently carried at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for credit and impairment losses'. The effects of translation of foreign currency-denominated HTM investments are recognized in the statement of income.

The Group does not have HTM investments as of December 31, 2013 and 2012.

Loans and receivables amounts due from BSP and other banks, interbank loans receivable (IBLR) and securities purchased under resale agreements (SPURA)

These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and as such are not categorized as financial assets held for trading, designated as AFS investments or financial assets designated at FVPL. They also do not include those for which the Group may not recover substantially all its initial investments, other than because of credit deterioration.

Loans and receivables also include finance lease receivables and loans and receivables financed. Unearned lease and finance income is shown under 'Unearned discount' account as a deduction from 'Loans and receivables'.

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

AFS investments

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

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are reported as 'Net unrealized gain (loss) on AFS investments' in other comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as 'Trading and securities gain - net' in the statement of income. Interest earned on holding AFS investments is reported as 'Interest income' using the effective interest method. Dividends earned on holding AFS investments are recognized in the statement of income as 'Miscellaneous income' when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for credit and impairment losses' in the statement of income.

Other financial liabilities

Issued financial instruments or their components, which are not designated at FVPL, are classified as liabilities under 'Deposit liabilities', 'Bills payable' or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

Derecognition of Financial Assets and Liabilities

Financial assets

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

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

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

Financial liabilities

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

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of condition as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of condition as an asset with a corresponding obligation to return it, including accrued interest as a liability within Cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Group.

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

Reclassification of Financial Assets

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

- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- there is a rare circumstance.

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

For a financial asset reclassified out of the AFS category to loans and receivables or HTM investments, any previous gain or loss on that asset that has been recognized in OCI is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using effective interest method. If the asset is subsequently determined to be impaired, then the amount recorded in OCI is realized to the statement of income.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

Impairment of Financial Assets

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

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

Financial assets carried at amortized cost

For financial assets at amortized cost which includes HTM investments, loans and receivables, due from BSP, due from banks, IBLR and SPURA, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows are discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment for impairment.

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Financial assets together with the associated allowance accounts are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is credited to Provision for credit and impairment losses in the statement of income and the allowance account is reduced. If a future write-off is later recovered, the recovery is credited to the 'Provision for credit and impairment losses' in the statement of income.

The details of credit and impairment losses on financial assets carried at amortized cost are disclosed in Note 16.

Restructured loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

AFS investments

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

In case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. The Group treats 'significant' generally as 20.00% or more and 'prolonged' as greater than twelve (12) months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income is removed from consolidated other comprehensive income and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments categorized as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purposes of measuring impairment loss. Such accrual is recorded as part of 'interest income' in the statement of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Collateral and foreclosed collateral

The Group seeks to use collateral, where possible, to mitigate credit risk on its financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables and other non-financial assets and credit enhancements. The fair value of the collateral is generally assessed, at a minimum, at inception. To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate and chattel, is valued based on data provided by third parties such as independent appraisers.

The Group's policy is to determine whether a foreclosed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the carrying value of the foreclosed asset. Assets that are determined better to be sold are immediately transferred to assets held for sale at their fair value at the foreclosure date in line with the Group's policy.

Financial Guarantees

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

Any increase in the liability relating to financial guarantees is taken to the statement of income in 'Miscellaneous expense'. Any financial guarantee liability remaining is recognized in the statement of income in 'Service charges, fees and commission', when the guarantee is discharged, cancelled or has expired.

Residual Value of Leased Assets and Deposits on Finance Leases

The residual value of leased equipment is the estimated proceeds from the disposal of the leased asset at the end of the lease term which approximates the amount of guaranty deposit paid by the lessee, at the inception of the lease. At the end of the lease term, the residual value is generally applied against the guaranty deposit of the lessee.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognized:

Interest Income

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

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

Trading and securities gain - net

This represents results arising from trading activities including all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL and gains and losses from disposal of AFS investments.

Fees and commissions

Fees and commissions are recognized only upon collection or accrued where there is a reasonable degree of certainty as to their collectibility. Commitment fees are recognized as earned over the terms of the credit lines granted to each borrower.

Unearned discount

Unearned discount is recognized as income over the life of the loans and receivables using the effective interest method and shown as a deduction from the related loans and receivables.

Service charges and penalties

Service charges and penalties are recognized only upon collection or accrued where there is reasonable certainty as to its collectibility.

Leasing income

a. Finance lease

The excess of aggregate lease rentals plus the estimated residual value (gross finance lease receivables) over the cost of the leased asset (present value of the receivables) constitutes the unearned lease income. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed, using the effective interest method, which reflects a constant periodic rate of return.

Finance charges are included in the face value of the loans and receivables financed with a corresponding credit to unearned finance income. This is amortized to income over the term of the financing agreement using the effective interest method.

Amortization of unearned lease and finance income is discontinued when finance lease receivables and loans and receivables financed become past due for more than 90 days.

- b. Operating lease
- Rent income from operating lease is recognized on a straight-line basis over the lease terms on ongoing leases.

Expense Recognition

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

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and IBLR and SPURA with maturities of three months or less from original dates of placements and that are subject to insignificant risk of changes in value.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization, and any accumulated impairment in value. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance are normally charged to operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the assets. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any accumulated impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives (EUL) of the respective assets. EUL of property and equipment are as follows:

Building	20 years
Furniture, fixtures and equipment	3 and 5 years
Transportation equipment	5 years
Leasehold improvements	5 years or the terms of the related leases, whichever is shorter
Equipment for lease	5 years

The EUL and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable, if any such indication exists and where the carrying values exceed the estimated recoverable amounts, an impairment loss is recognized in the statement of income (see accounting policy on Impairment of Nonfinancial assets).

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under investment properties from foreclosure date.

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on derecognition of an investment property is recognized in the statement of income in the year of derecognition.

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

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties. Remaining useful lives of buildings range from 10 to 35 years.

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

Goodwill

Goodwill is initially measured at cost being the excess of the acquisition cost over the net fair value of the acquired identifiable assets, liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired is, from the acquisition date, allocated to each of the cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether the acquired other assets or liabilities are assigned to those units.

Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (or group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit (or group of cash generating units) is less than the carrying amount of the cash generating unit (or group of cash generating units) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangibles

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Software cost

Software costs are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over five years on a straight-line basis. Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Branch licenses

Branch licenses have been acquired and granted by the BSP and capitalized on the basis of the cost incurred to acquire and bring to use in operation. Branch licenses were determined to have indefinite useful lives. These are tested for impairment annually either individually or at the cash-generating unit level.

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in statement of income or as a change to OCI. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of fair value of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment of Nonfinancial Assets

Property and equipment, investment properties, investments in subsidiaries and software costs

The Group assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less cost of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the financial statements.

Leases

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

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
 - a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
 - there is a change in the determination of whether fulfillment is dependent on a specified asset or
 - there is a substantial change to the asset.
- Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Group as lessee

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

Group as lessor

Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are included in the statement of condition under 'Loans and receivables' account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized as revenue in the period in which they are earned. Contingent rents are recognized as revenue in the year in which they are earned.

Retirement Cost

Defined Benefit Plan

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

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

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

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Provisions

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

Contingent Liabilities and Contingent Assets

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

Government Grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When the Group receives non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual installments.

When loans or similar assistance are provided by government or related institutions, with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant. The government grant component is measured as the difference between the present value of the loan granted and cash received. Such amount shall be recognized in the statements of income on a systematic basis over the periods in which the Parent Company recognizes as expenses the related costs for which the grants are intended to compensate.

Income Taxes

Current taxes

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

Deferred taxes

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

Deferred tax liabilities (DTL) are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

DTL is not provided on non-taxable temporary differences associated with investments in domestic subsidiaries.

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

- where the DTA relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and
- in respect of taxable temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of DTA is reviewed at each statement of condition date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the DTA to be utilized. Unrecognized DTA are reassessed at each statement of condition date and are recognized to the extent that it has become probable that future taxable income will allow the DTA to be recovered.

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

Current tax and deferred tax relating to items recognized directly in equity is also recognized in equity and not in the statement of income.

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

Equity

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

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

Surplus represents accumulated earnings of the Parent Company less dividends declared.

Earnings per Share (EPS)

Basic EPS is determined by dividing the net income for the year attributable to common shares by the weighted average number of common shares outstanding during the year while diluted EPS is computed by dividing net income for the year attributable to common shares by the weighted average number of outstanding and dilutive potential common shares. Basic and diluted EPS are given retroactive adjustments for any stock dividends declared in the current year, if any. As at December 31, 2013 and 2012, there were no potential common shares with dilutive effect on the basic EPS of the Group.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Group and the BSP. Dividends for the year that are approved after the statement of condition date are dealt with as an event after the statement of condition date and disclosed accordingly.

Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is one that provides products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

The Group's operations are organized according to the nature of products and services provided. Financial information on business segments is presented in Note 6.

Events After Statement of Condition Date

Any postyear-end events that provide additional information about the Group's position at the statement of condition date (adjusting events) are reflected in the financial statements. Any postyear-end events that are not adjusting events are disclosed when material to the financial statements.

Fiduciary Activities

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

Future Changes in Accounting Policies

New standards and interpretations that have been issued but are not yet effective Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This is a listing of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards to have a significant impact on the financial statements.

PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied.

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

These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

Philippine Interpretation IFRIC 21, Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

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

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

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

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard. The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to PFRSs. Except otherwise indicated, the adoption of these improvements will not have an impact on the Group's financial statements.

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

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

PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements

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

PFRS 13, Fair Value Measurement - Portfolio Exception

The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

PAS 40, Investment Property

The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

3. Significant Accounting Judgments and Estimates

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

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.

Judgments

(a) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of condition cannot be derived from active markets, they are determined through internal valuation techniques using generally accepted valuation models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments may include considerations of liquidity, correlation and volatility. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 5 for the fair value measurement of financial assets and liabilities.

(b) Financial assets not quoted in an active market

The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market in determining if there is an active market. The Group takes into consideration if there is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing into an on going basis.

(c) Leases

Operating lease

Group as lessor

The Group has entered into commercial property leases on its investment properties and lease of automobiles. The Group has determined that it retains all the significant risks and rewards of ownership of these assets. Accordingly, this is accounted for as operating lease. In determining whether or not there is indication of operating lease treatment, the Group considers retention of ownership title to the leased property, period of lease contract relative to the estimated useful economic life of the leased property and bearer of executory costs, among others.

Group as lessee

The Group has entered into leases on premises it uses for its operations. The Group has determined, based on the evaluation of the lease agreement, that all significant risk and rewards of ownership of the properties it leases are not transferred to the Group.

Finance lease

The Group has entered into lease arrangements on vehicles. The Group has determined that it transfers all the significant risks and rewards of ownership of these properties and so accounts for these leases as finance lease.

(d) Embedded derivatives

Where a hybrid instrument is not classified as financial assets at FVPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

Refer to Note 8 for the details of the Group's embedded derivatives.

(e) Functional currency

PAS 21, The Effects of Changes in Foreign Exchange Rates, requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. The Parent Company determined that the RBU and FCDU's functional currency are Philippine peso and USD, respectively. In addition, the subsidiaries determined that their respective functional currency is in Philippine peso. In making this judgment, the Group considers the following:

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

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

(f) Contingencies

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 30).

Estimates

(a) Fair value determination of assets acquired and liabilities assumed from business combination

In June 2012, the Group provisionally determined the fair values of the assets acquired and liabilities assumed from the acquisition of Asiastar Development Bank and was finalized in June 2013. Likewise, the Group finalized the fair value determination of the net assets acquired from the acquisition of Cooperative Bank of Cavite in September 2013. The Group determines the acquisition-date fair values of identifiable assets acquired and liabilities assumed from the acquiree without quoted market price based on the following:

- for assets and liabilities that are short term in nature, carrying values approximate fair values
- for financial assets and liabilities that are long-term in nature, fair values are estimated through the discounted cash flow methodology, using the appropriate market rates (e.g. current lending rates) for nonfinancial assets such as property and equipment and investment properties, fair values are determined based on an appraisal valuation which follows sales comparison approach and depreciated replacement cost approach depending on the highest and best use of the assets.

Refer to Notes 35 and 36 for the details of the final fair valuation of the identifiable assets and liabilities assumed from business combination.

(b) Credit losses of loans and receivables

The Group reviews individually significant loans and receivables at each statement of condition date to assess whether impairment loss should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired.

The carrying values of the loans and receivables and related allowance for credit losses of the Group and Parent Company are disclosed in Note 9.

(b) Fair values of structured debt instruments and free standing embedded derivatives

The fair values of structured debt instruments and free standing embedded derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 5 for information on the fair values of these instruments.

(c) Impairment of AFS equity instruments

The Group's investment in equity securities that do not have quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less allowance for impairment losses.

The Group treats AFS equity instruments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats as 'significant' decline in fair value of

20.00% or more from the original cost of investments and 'prolonged' as greater than 12 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The carrying values of equity securities and related allowance for impairment losses of the Group and Parent Company are disclosed in Note 8.

(d) Impairment of debt instruments

The Group determines that AFS debt investments are impaired when there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of debt investments before the decrease can be identified with an individual debt investment in that portfolio.

The carrying values of AFS debt investments and related allowance for impairment losses of the Group and Parent Company are disclosed in Note 8.

(e) Recognition of deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The amounts of recognized and unrecognized deferred tax assets of the Group and Parent Company are disclosed in Note 27.

(f) Impairment of nonfinancial assets

Investment in subsidiaries, property and equipment; investment properties and software costs

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

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

The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value-in-use approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

The carrying values of investment in subsidiaries, property and equipment, investment properties and software costs of the Group and Parent Company are disclosed in Notes 10, 11, 12 and 14, respectively.

Goodwill

The Group conducts an annual review every December 31 for any impairment in value of goodwill.

Goodwill is written down for impairment when the net present value of the forecasted future cash flows from the cash generating units is insufficient to support its carrying value. The Group estimated the discount rate used for the computation of the net present value using weighted average cost of capital.

Future cash flows from the business are estimated based on the theoretical annual income of the cash generating units. Average growth rate was derived from the average increase in annual income during the last 5 years.

The recoverable amount of the CGU, representing the Parent Company's subsidiary and branch banking unit, has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.

Key assumptions in value-in-use calculation of CGUs are most sensitive to the following assumptions: a.) interest margin; b.) discount rates; and c.) projected growth rates used to extrapolate cash flows beyond the budget period.

Interest margin was based on interest rates granted to markets serviced by the subsidiary and the branch banking unit. Projected growth rates reflect the historical long-term growth rates of the Parent Company branches.

The key assumptions used in the impairment calculation and the carrying value of goodwill are disclosed in Note 13.

Branch licenses

The Group conducts an annual review for any impairment value of branch licenses. Branch licenses are written down for impairment where the carrying amount of branch licenses exceeds their recoverable value. The Group makes reference to recent purchases of Branch licenses or value in use to establish its recoverable value.

The carrying values of branch licenses of the Group and Parent Company are disclosed in Note 14.

(g) Estimated useful lives of property and equipment, investment properties and software costs

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

The estimated useful lives of property and equipment, investment properties and software costs are disclosed in Note 2.

(h) Present value of retirement obligation

The cost of defined benefit obligation and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, and future salary increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at statement of condition date.

As at December 31, 2013 and 2012, the present value of the defined benefit obligation of the Group and Parent Company is disclosed in Note 24.

4. Financial Risk Management Objectives and Policies

The main purpose of the Group's financial instruments is to fund its operations and capital expenditures. The Group's financial instruments consist mainly of government securities, private bonds and commercial papers, loans and receivables, deposit in banks, deposit liabilities, bills payable and other liabilities. Further, the Group is also an active participant in the interbank market and has interbank loans and repurchase agreements. The Group enters into over-the-counter (OTC) derivatives, mainly spot forward, swap exchange contracts, as a service to customers and as a means of reducing and managing the Group's foreign exchange risks.

The Group's policy is to undertake risk positions consistent with its risk philosophy. Financial instruments are entered into within the acceptable risk and return trade off parameters that are consistent with the Group's risk objectives set for the year. Capital is rationally allocated based on risks assumed. This capital allocation policy underlies the risk limits imposed by the board of directors (BOD) that guide the management team in its risk taking activities.

The subsidiaries adopted the risk management policies of the Parent Company and are in the process of formalizing their risk management system using the parameters and standards set up by the BSP.

There were no significant changes in the risk management policies of the Group in 2013 and 2012.

Risk Management Framework

The Parent Company is aware of the highly competitive industry within which it operates and takes on a pro-active management of the risks it faces in its day to day activities. The risk management process is integrated in all facets of the operations, from policy-making down to the transactional level, with the involvement of the directors, senior management and internal auditors.

The Parent Company's Risk Management System is an ongoing process that starts from goal setting to revalidation of the risk methodologies. These goals are consistent with the overall risk management philosophy.

The Parent Company has a risk functional hierarchical structure that reflects the top-down approach to a focused risk management framework. The BOD, through the Asset Liability Committee (ALCO) and Risk Management

Committee (RMC), ensures that risk management objectives are achieved. Each of the risk functional units has well-defined roles in the Parent Company's risk management system and structure.

The risk taking units, consisting of the Branch Banking, Treasury Dealing, Account Management, Private Banking and Trust Banking Groups, are principally involved in the determination of growth opportunities and, together with the Risk Management Unit (RMU), ALCO and RMC, evaluate the business risks and define the risk tolerance of the Parent Company. Line managers for the trading activities monitor performance at levels within established price risk limits, which is Value-at-Risk. The VaR is the amount that defines management's tolerance for accepting daily price risk-related losses on a cumulative month-to-date basis in portfolios that are marked-to-market. VaR limits are set for each price risk taking unit.

The RMU is principally tasked to quantify the risks utilizing methodologies such as Value-at-Risk (VaR), Volatility Studies and Stress Testing. Treasury Operations is responsible for mark-to-market calculations. Benchmarks as prescribed by the regulatory bodies are used in marking to market financial risk exposures of the Parent Company.

The Risk Control and Compliance Units, consisting of the Loans, Trade, Legal, Credit Policy and Treasury Operations, are principally responsible for limit compliance monitoring and control. The internal control system of the Parent Company and the periodic audit review ensure that the risk control functions are administered consistently. The periodic budget review ensures that actual risk taking performance of the Parent Company is reported to and noted by the BOD. The Audit Unit and RMU are responsible for model revalidation at least on an annual basis before a new set of risk limits is submitted for approval for the ensuing year.

Management of credit risk is the principal responsibility of the Credit Committee and the Executive Committee. The role of the Credit Committee is to ensure that the credit risk policies are strictly compiled when approving loan proposals. The Executive Committee ensures that credit management processes are consistent with policies covering market, operational, legal, business, event and other residual risks as approved by the BOD.

The Audit Committee, concurrently tasked to oversee management of compliance risk, is responsible for implementing a control system to ensure that operational and legal risks are properly handled from documentation, transaction processing, all the way to regulatory reporting.

Risk Management Philosophy

Effective risk management process and structure are key factors in responsible corporate governance. The maintenance of adequate regulatory capital and preservation of stockholders' capital rely heavily on the management appetite for risk, ability to establish opportunities and expertise to identify, control, and quantify the attendant financial, operational, business and event risks in banking. Adequate return of capital can only be ensured when activities are undertaken in terms of risk return trade-off.

Risk Measurement and Reporting Systems

The Parent Company's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of actual loss based on statistical models and scenario analyses. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment. The Parent Company also runs worse case scenarios that would arise in the events which are unlikely to occur but do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Parent Company. These limits reflect the business strategy and market environment of the Parent Company as well as the level of risk that the Parent Company is willing to accept, with additional emphasis on selected industries. In addition, the Parent Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify risks early. This information is presented and explained to the members of the BOD, the ALCO and RMC, and the head of each business division. The report includes aggregate credit exposure, limit exceptions, VaR, liquidity ratios and risk profile changes. On a periodic basis, detailed reporting of industry, customer and geographic risks takes place. Senior Management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Senior Management and the BOD receive risk reports on a regular basis which are designed to provide the necessary information to assess and conclude on the risks of the Parent Company. For all levels throughout the Parent Company, specifically tailored risk reports are prepared and distributed to ensure that business divisions have access to extensive, necessary and up-to-date information.

A regular briefing is given to the ALCO (fortnightly) and RMC (monthly), and Senior Management team members of the Parent Company on the utilization of market limits, analysis of VaR, proprietary investments and liquidity, plus other risk developments.

Risk Mitigation

The risk profile is assessed before entering into hedge transactions, which are authorized by the appropriate level of seniority within the Group. The Group did not enter into hedging transactions in 2013 and 2012.

The Group actively uses collateral to reduce its credit risk (see discussion under Collateral and other credit enhancements).

Credit Risk and Concentration

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages credit risk by setting limits and monitoring credit limits per individual facility, borrower and related entities, and industry and market.

Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region or market, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

To avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry. The distribution of financial assets and off-balance sheet items by industry sector as at December 31, 2013 and 2012 follows (amounts in thousands):

	Consolidated		Parent Company	
	2013	2012	2013	2012
Financial intermediaries	₱54,651,557	₱18,505,862	₱54,556,723	₱18,393,753
Real estate, renting and business				
Service	15,396,473	12,877,461	15,117,211	12,695,469
Wholesale and retail trade	11,179,743	6,798,799	10,960,810	6,636,192
Manufacturing	7,033,424	9,237,008	7,011,314	8,975,635
Public utilities	2,767,031	70,363	2,681,492	63,611
Agriculture, fisheries and forestry	1,010,220	309,983	869,595	252,841
Others	6,671,664	11,622,856	6,182,764	11,230,085
	₱98,710,112	₱59,422,322	₱97,379,909	₱58,247,586

Credit-related commitments risks

The Parent Company provides to its customers guarantees, which may require the Parent Company to make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Parent Company to similar risks to loans and these are mitigated by the same control processes and policies.

Collateral and other credit enhancements

The Group extends credit in a secured basis whenever possible and ensures that the terms and collateral are appropriate to the nature of credit accommodation extended to clients.

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

The main types of collateral obtained by the Parent Company are as follows:

- for securities lending and reverse repurchase transactions, cash or securities;
- for commercial lending, charges over real estate properties, inventory and trade receivables; and
- for consumer lending, mortgages over residential properties and vehicles.

The Parent Company also obtains guarantees from stockholders for loans to their subsidiaries as well as comprehensive sureties from major stockholders or third parties with beneficial interests on the borrowing clients, but the benefits are not included in the above table.

Management monitors the fair value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained for its review of the adequacy of the allowance for impairment losses. As at December 31, 2013 and 2012, the fair value of the Parent Company's collateral to cover its impaired loans amounted to ₱207.13 million and ₱826.81 million, respectively.

The Group's policy is to dispose the repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

The Group also makes use of master netting agreements with counterparties.

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

An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements is shown below as at December 31, 2013 and 2012:

	2013			
	Maximum Exposure	Fair Value of Collaterals	Net Exposure to Credit Risk	Financial Effect of Collaterals
Credit risk exposures relating to on-balance sheet assets are as follows:				
Due from BSP	P18,800,513,129	P	P18,800,513,129	P
Due from other banks	1,223,631,617		1,223,631,617	
ILR and SPURA				
ILR	74,570,015		74,570,015	
	20,098,714,761		20,098,714,761	
Loans and receivables				
Loans and discounts	32,138,119,911	5,387,758,885	28,966,714,456	3,171,405,455
Corporate lending	6,033,313,980	5,368,636,238	968,679,816	5,064,634,164
Consumer lending	38,171,433,991	10,736,395,123	29,935,394,272	8,236,039,619
Finance lease receivables	264,919,347	388,114,410	264,919,347	264,919,347
Loans and receivables financed	279,387,472	434,323,372	45,189,071	234,198,401
Customer's liability under acceptances and letters of credit				
Unquoted debt securities	4,262,877,455	324,499,771	3,957,268,403	305,609,052
Bills purchased	3,440,407,934	-	3,440,407,934	-
Accrued interest receivable	409,899,039	-	409,899,039	-
Accounts receivable	577,634,627		577,634,627	
	283,273,085		283,273,085	
	47,689,832,850	11,883,332,676	38,649,066,431	9,040,766,419
Financial assets at FVPL				
Held-for-trading securities	3,114,238,422		3,114,238,422	
Government securities				
Private bonds and commercial papers	578,403,532		578,403,532	
Designated at FVPL	105,362,817		105,362,817	
Quoted equity securities	112,059,597		112,059,597	
Derivative assets	3,910,064,368		3,910,064,368	
AFS investments				
Government securities	14,032,454,905		14,032,454,905	
Private bonds and commercial papers	10,262,305,170		10,262,305,170	
Quoted equity securities	1,500,000		1,500,000	
Unquoted equity securities	30,971,771		30,971,771	
	24,327,231,546		24,327,231,546	
	96,025,843,025	11,883,332,676	86,965,077,406	9,040,766,419
Credit risk exposures relating to off-balance sheet items are as follows				
(Note 30):				
Financial guarantees	523,627,987		523,627,987	
Loan commitments and other credit related liabilities				
Unused commercial letters of credit	1,414,114,264		1,414,114,264	
Standby letters of credit	746,526,084		746,526,084	
	2,684,268,335		2,684,268,335	
	P88,710,112,160	P11,883,332,676	P89,669,345,741	P9,040,766,419

	2012			
	Maximum Exposure	Fair Value of Collaterals	Net Exposure to Credit Risk	Financial Effect of Collaterals
Credit risk exposures relating to on-balance sheet assets are as follows:				
Due from BSP	P9,493,667,377	P	P9,493,667,377	P
Due from other banks	1,558,087,601		1,558,087,601	
ILR and SPURA				
ILR	6,694,968		6,694,968	
	11,058,449,946		11,058,449,946	
Loans and receivables				
Loans and discounts	21,150,652,154	8,245,679,095	17,222,469,440	3,949,231,826
Corporate lending	4,327,837,771	2,521,877,664	2,911,124,054	1,837,634,865
Consumer lending	25,488,489,925	10,768,566,759	20,133,393,494	5,886,866,691
Finance lease receivables	182,537,499	120,518,158	62,019,341	120,518,158
Loans and receivables financed	163,064,868	213,270,559		163,064,868
Customer's liability under acceptances and letters of credit				
Unquoted debt securities	3,594,111,370	348,809,205	3,339,172,269	254,999,101
Bills purchased	3,366,432,703		3,366,432,703	
Accrued interest receivable	718,501,739		718,501,739	
Accounts receivable	265,710,753		265,710,753	
	89,969,440		89,969,440	
	33,868,818,297	11,451,154,681	27,976,399,739	6,125,388,818
Financial assets at FVPL				
Held-for-trading securities	332,221,474		332,221,474	
Government securities				
Private bonds and commercial papers	750,950,923		750,950,923	
Designated at FVPL	235,276,450		235,276,450	
Quoted equity securities	123,526,306		123,526,306	
Derivative assets	1,441,975,153		1,441,975,153	
AFS investments				
Government securities	4,271,706,822		4,271,706,822	
Private bonds and commercial papers	6,204,785,341		6,204,785,341	
Quoted equity securities	300,713,515		300,713,515	
Unquoted equity securities	16,579,001		16,579,001	
	10,793,783,679		10,793,783,679	
	57,163,027,075	11,451,154,681	51,269,038,517	6,125,388,818
Credit risk exposures relating to off-balance sheet items are as follows				
(Note 30):				
Financial guarantees	445,124,229		445,124,229	
Loan commitments and other credit related liabilities				
Unused commercial letters of credit	893,013,996		893,013,996	
Standby letters of credit	921,157,195		921,157,195	
	2,259,295,420		2,259,295,420	
	P59,422,322,095	P11,451,154,681	P58,528,903,937	P6,125,388,818

2013

	Parent Company			
	Maximum Exposure	Fair Value of Collaterals	Net Exposure to Credit Risk	Financial Effect of Collaterals
Credit risk exposures relating to on-balance sheet assets are as follows:				
Due from BSP	P18,788,997,740	P	P18,788,997,740	P
Due from other banks	1,171,852,159		1,171,852,159	
IBLR and SPURA				
IBLR	74,570,015		74,570,015	
	20,035,419,914		20,035,419,914	
Loans and receivables				
Loans and discounts				
Corporate lending	32,042,255,593	5,301,842,909	28,934,018,989	3,108,236,604
Consumer lending	5,889,455,791	5,286,629,581	840,912,308	5,048,543,483
	37,931,711,384	10,588,472,490	29,774,931,297	8,156,780,087
Customer's liability under acceptances and letters of credit	4,262,877,455	324,499,771	3,957,268,403	305,609,052
Unquoted debt securities	3,440,407,934		3,440,407,934	
Bills purchased	409,899,039		409,899,039	
Accrued interest receivable	573,530,770		573,530,770	
Accounts receivable	282,703,753		282,703,753	
	46,901,130,335	10,912,972,261	38,438,741,196	8,462,389,139
Financial assets at FVPL				
Held-for-trading securities				
Government securities	3,114,238,422		3,114,238,422	
Private bonds and commercial papers				
	578,403,532		578,403,532	
Derivative assets	112,059,597		112,059,597	
	3,804,701,551		3,804,701,551	
AFS investments				
Government securities	13,661,110,641		13,661,110,641	
Private bonds and commercial papers	10,262,305,170		10,262,305,170	
Quoted equity securities				
Unquoted equity securities	30,971,771		30,971,771	
	23,954,387,582		23,954,387,582	
Total	94,695,639,382	10,912,972,261	86,233,250,243	8,462,389,139
Credit risk exposures relating to off-balance sheet items are as follows				
(Note 30):				
Financial guarantees	523,627,987		523,627,987	
Loan commitments and other credit related liabilities				
Unused commercial letters of credit	1,414,114,264		1,414,114,264	
Sundry letters of credit	746,526,084		746,526,084	
	2,684,268,335		2,684,268,335	
Total	P97,379,907,717	P10,912,972,261	P88,917,516,578	P 8,462,389,139

2012

	Parent Company			
	Maximum Exposure	Fair Value of Collaterals	Net Exposure to Credit Risk	Financial Effect of Collaterals
Credit risk exposures relating to on-balance sheet assets are as follows:				
Due from BSP	P9,484,241,402	P	P9,484,241,402	P
Due from other banks	1,435,768,322		1,435,768,322	
IBLR and SPURA				
IBLR	6,694,968		6,694,968	
	10,926,704,692		10,926,704,692	
Loans and receivables				
Loans and discounts				
Corporate lending	21,033,517,368	8,078,317,664	17,263,696,085	3,730,870,395
Consumer lending	4,236,862,051	2,237,160,174	3,164,865,824	1,352,917,315
	25,330,379,419	10,315,477,838	20,428,561,909	5,135,787,710
Customer's liability under acceptances and letters of credit	3,594,111,370	348,809,205	3,339,172,269	254,939,101
Unquoted debt securities	3,366,432,703		3,366,432,703	
Bills purchased	718,501,739		718,501,739	
Accrued interest receivable	261,725,554		261,725,554	
Accounts receivable	88,493,517		88,493,517	
	33,399,644,302	10,664,287,043	28,202,887,691	5,388,726,871
Financial assets at FVPL				
Held-for-trading securities				
Government securities	332,221,474		332,221,474	
Private bonds and commercial papers				
	750,950,923		750,950,923	
Derivative assets	123,526,306		123,526,306	
	1,206,698,703		1,206,698,703	
AFS investments				
Government securities	3,974,312,845		3,974,312,845	
Private bonds and commercial papers	6,204,785,341		6,204,785,341	
Quoted equity securities	300,713,515		300,713,515	
Unquoted equity securities	15,431,268		15,431,268	
	10,495,242,969		10,495,242,969	
Total	55,988,290,666	10,664,287,043	50,831,534,055	5,388,726,871
Credit risk exposures relating to off-balance sheet items are as follows				
(Note 30):				
Financial guarantees	445,124,229		445,124,229	
Loan commitments and other credit related liabilities				
Unused commercial letters of credit	893,013,996		893,013,996	
Sundry letters of credit	921,157,195		921,157,195	
	2,259,295,420		2,259,295,420	
Total	P58,247,586,086	P10,664,287,043	P53,090,829,415	P5,388,726,871

Credit quality per class of financial assets

The credit quality of the Group's commercial and consumer loans are managed using internal credit ratings. The credit quality of the Group's exposures to the BSP, other financial institutions, sovereigns, and other counterparties through deposits, receivable, and trading and investment security transactions are managed through a combination of internal assessments and references to external credit ratings, where available.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The credit risk rating system is duly approved by the regulatory body. It has two components, namely: a) Borrower Risk Rating, which provides an assessment of the credit worthiness of the borrower, and b) Facility Risk Rating, which provides an assessment of the specific facility as enhanced by security arrangements such as security, collateral and credit covenants.

The internal credit risk rating system (ICRRS) of the Group was implemented in 2005. Commercial accounts covered by the internal rating system are rated based on risk factors and categorized accordingly. The rating is the major indicator for increase or deduction if not termination of credit facilities extended to clients. The improved risk rating process standardizes pricing of exposure to individual and group accounts as the required credit premium crystallized because of the classifications. It also facilitates impairment tests.

With this already institutionalized process together with the systems for Account Profitability Analysis, the Group has built the necessary foundation to assess and reassess credit exposures at the counterparty levels. The risk/reward profile of individual exposure became the cornerstone of transaction proposals and approval. The execution of diversification tactics are facilitated because of this granular assessment capability. The payment rating system is a supplementary system aimed at generating the necessary data for loss given default to validate the reliability of default rate assigned per risk category under the present ICRRS.

The payment rating system is the basis of the Group in monitoring credit risk on consumer loans. Consumer loans covered by the payment rating system are rated based on historical payment patterns and default history. The rating is the Group's basis for granting suspension, renewal and dis-accreditation of loan application.

The table below presents the classification of credit rating to credit quality and description for each credit rating:

Credit Quality	ICRRS Grade	Description
High	Internal: Good 1	- The borrower exhibits adequate protection parameters, but there are foreseen adverse conditions or circumstances that will, in all likelihood, lead to a weakened capacity of the borrower to pay its debt obligations upon maturity. - The borrowers earning performance and capacity to pay maturing obligations are more vulnerable to possible occurrences than those rated Strong.
		Highest quality, with minimal credit risk
	External: Aaa	- High quality and is subject to very low credit risk - Subject to moderate credit risk - Considered medium-grade and as such may possess certain speculative characteristics
		The probability of default is somewhat greater than those rated as Good 1. This probability is reflected in volatility of earnings and overall performance.
		Borrowers in this category normally have less access to public financial markets.
Standard	Internal: Good 2	- Borrowers should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. - The borrower and its principals still have good credit standing with the creditors and trade suppliers, without any history of past due.
		The risk elements for the Group are sufficiently pronounced, although borrowers should still be able to withstand normal business cycles.
	Good 3	- Any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels. - Have speculative elements and is subject to substantial credit risk - Considered speculative and is subject to high credit risk (Actual exposure limited to foreign exchange denominated issues of the Republic of the Philippines hence the Standard Classification)
		The borrower is vulnerable to nonpayment but payments are still being made.
		The borrower has a minimal level of, and doubtful sources for, alternative funding to cover possible shortfalls of existing liquidity to pay off maturing obligations.
Substandard	Internal: Doubtful	The borrower is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful.

The credit quality of other financial instrument exposures, such as trading and investment securities, are managed by reference to external ratings, supplemented by individual assessments.

The table below shows the credit quality of neither past due nor impaired financial assets by class, based on the Group's credit rating systems as at December 31, 2013 and 2012.

	Consolidated				
	Neither past due nor impaired		Past due but not impaired		Total
	High Grade	Standard Grade	Substandard Grade	Impaired	
Due from BSP	P18,800,513,129			P	P18,800,513,129
Due from other banks	1,223,631,617				1,223,631,617
IBLR and SPURA					
IBLR	74,570,015				74,570,015
Loans and receivables	20,098,714,761				20,098,714,761
Loans and discount	16,769,381,686	13,160,708,921	389,609,972	211,205,531	32,330,906,110
Corporate lending	5,745,091,537	373,801,965	236,251,064	270,085,937	6,425,230,505
Consumer lending	11,024,290,149	9,796,906,956	153,358,908	217,418,896	21,011,764,910
Finance lease receivables	21,995,473,233	13,534,600,786	624,860,336	481,292,528	36,636,236,883
Loans and receivables	76,397,399	107,009,050	56,370,336	71,359,896	315,912,188
Customers' liabilities under acceptances and letters of credit/trust receipts	100,209,772	102,947,808	19,612,321	545,430	296,472,042
Unliquidated debt securities	1,384,125,800	2,863,743,867		45,686,797	4,293,556,464
Accrued interest receivable	887,960,080	1,600,020,012	298,748,646	1,331,850,000	3,618,579,748
Accounts receivable	417,592,349	74,094,824	77,923,165	1,901,063	570,511,341
Financial Assets at FVPL	24,884,364,328	18,653,419,645	1,077,584,403	117,676,976	44,725,985,352
Held for trading				3,987,823,680	3,987,823,680
Government securities	10,033,221	3,104,205,201			3,114,238,422
Private bonds and commercial papers	176,705,667	77,034,707	324,663,158		578,403,532
Designated at FVPL	105,362,817				105,362,817
Derivative assets	15,817,585	96,242,012			112,060,597
AFS investments	307,919,390	3,277,481,920	324,663,158		3,910,064,368
Government securities	7,059,817,173	6,972,637,732			14,032,454,905
Private bonds and commercial papers					
Quoted equity securities	5,025,866,187	903,028,652	4,348,061,368		10,276,956,217
Unquoted equity securities		1,500,000		1,500,000	1,500,000
Allowance for credit and unearned discounts and unearned lease/finance income	12,085,683,360	7,892,747,440	4,372,595,598		24,351,026,406
	P57,376,811,739	P23,823,649,005	P5,174,843,159	P600,785,734	P63,987,823,680
					97,363,786,317
					(1,418,943,942)
					(119,000,550)
					P96,025,843,825

	Parent Company					
	Neither past due nor impaired			Past due but not impaired		
	High Grade	Standard Grade	Substandard Grade	P	F	Total
Due from BSP	\$18,788,907,740	-	-	-	-	\$18,788,907,740
Due from other banks	1,171,852,159	-	-	-	-	1,171,852,159
B/LR and SPURA	74,570,015	-	-	-	-	74,570,015
I/B/LR	20,035,419,914	-	-	-	-	20,035,419,914
Loans and receivables	16,750,381,686	13,116,346,262	375,473,346	190,313,441	2,189,355,223	32,621,866,958
Corporate lending	5,245,951,537	227,163,926	195,622,189	314,059,412	156,380,540	6,139,513,604
Consumer lending	21,995,474,223	13,343,914,188	572,295,935	504,363,853	2,345,735,763	38,161,380,292
Customers' liabilities under acceptances and letters of credit/ ^a trust receipts	1,384,125,800	2,863,373,867	-	45,686,797	30,136,173	4,273,692,637
Unquoted debt securities	9,900,020,001	1,600,020,012	-	1,331,850,000	3,819,770,033	12,651,662,046
Bills purchased	22,665,185	88,484,909	298,745,284	1,901,083	2,657,382	409,899,039
Accrued interest receivable	412,622,197	74,094,824	82,255,284	-	-	573,530,770
Accounts receivable	282,799,024	282,799,024	-	-	-	565,598,048
	24,702,786,405	18,252,656,824	953,299,764	551,951,733	3,722,326,892	48,183,023,618
Financial Assets at FVPL						
Held for trading	10,933,221	3,104,205,201	-	-	-	3,114,238,422
Debt securities	-	-	-	-	-	-
Private bonds and commercial papers	176,705,667	77,034,707	324,663,158	-	-	578,403,532
Derivative assets	15,817,585	96,242,012	-	-	-	112,059,597
	202,556,473	3,277,487,920	324,663,158	-	-	3,804,701,551
A/R investments						
Government securities	6,688,472,909	6,972,637,732	-	-	-	13,661,110,641
Private bonds and commercial papers	5,025,866,187	903,029,662	4,348,061,368	-	-	10,276,956,217
Quoted equity securities	-	-	-	-	-	-
Unquoted equity securities	-	-	-	-	-	-
	11,714,339,096	15,591,046	24,534,230	-	-	40,116,276
	7,891,247,440	4,372,595,598	-	-	-	23,978,182,134
	\$65,655,101,888	\$79,421,365,184	\$65,650,550,520	\$51,951,733	\$3,722,326,892	\$96,001,327,117
Allowance for credit and impairment losses	-	-	-	-	-	(1,231,586,915)
Unearned discounts	-	-	-	-	-	(74,100,920)
	-	-	-	-	-	\$94,695,639,382

	Parent Company			
	2012			
	Neither past due nor impaired		Past due but not impaired	
	High Grade	Standard Grade	High Grade	Standard Grade
	P	P	P	P
Due from BSP	₹9,484,241,402	1,453,768,322		
Due from commercial banks				
Due from other financial institutions				
Due from SPURIA	6,694,968			
Due from IBLR				
	10,926,704,692			
Loans and receivables				
Loans and discount				
Corporate lending	8,247,837,827	1,161,723,106	1,077,771,964	1,505,721,568
Consumer lending	321,893,858	294,503,455	352,889,981	321,893,858
	11,738,823,165	11,818,026,561	429,665,822	341,164,159
Customers' liabilities under acceptances and letters of credit				
Unquoted debt securities	1,601,624,223	1,996,080,083	-	780,000
Bills purchased	253,071,686	277,667,880	177,544,838	1,231,500,000
Accrued interest receivable	42,721,190	183,660,559	33,100,420	-
Accounts receivable	-	107,174,598	-	2,243,385
	13,636,240,264	16,803,737,124	640,311,080	11,406,784
Financial Assets at FVPL				
Held for trading				
Government securities	332,221,474			
Private bonds and commercial papers	399,823,347	351,121,576	-	-
Derivative assets	843,235	1,726,883,071		
	400,665,882	806,032,121		
AFS investments				
Government securities	3,974,312,845			
Private bonds and commercial papers	3,106,292,173	3,082,331,387	17,161,781	6,204,785,341
Quoted equity securities			314,260,647	314,260,647
	3,106,292,173	23,985,855	331,422,428	23,985,855
Allowance for credit and impairment losses	28,068,903,711	24,690,299,332	971,733,508	341,944,159
Unearned discounts				3,000,496,257
				10,517,244,686
				57,073,376,957
				907,504,023
				177,582,278
				55,988,280,668

The Group's policy is to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Parent Company's rating policy. The attributable risk ratings are assessed and updated regularly. External rating agencies' equivalent grades are relevant only for certain exposures in each risk rating class. Financial assets with no credit ratings from independent credit rating agencies are evaluated using baseline credit rating.

Information on the age of past due but not impaired loans for corporate lending, consumer lending, finance lease receivable and loans receivable financed under loans and receivables as at December 31, 2013 and 2012 (in thousands) follow:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Less than 30 days	₹264,065	₹216,624	₹258,801	₹184,690
31 to 60 days	88,911	119,137	87,806	109,005
61 to 90 days	247,810	85,325	205,345	48,249
	₹600,786	₹421,086	₹551,952	₹341,944

Carrying amount of financial assets whose terms have been renegotiated

As at December 31, 2013 and 2012, the carrying values of the Parent Company's restructured financial assets pertaining to corporate lending amounted to ₹656.95 million and ₹485.80 million, respectively.

As at December 31, 2013 and 2012, the carrying value of the Parent Company's restructured financial assets pertaining to debt securities, comprising mainly of structured products that were renegotiated in terms of coupon rates, amounted to ₹1.23 billion.

Impairment Assessment

The main consideration for the loan impairment assessment includes whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. Individually significant loans have a carrying value of ₹3.69 billion and ₹5.82 billion including interest as at December 31, 2013 and 2012, respectively. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each statement of condition date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and receivables that are not individually significant (including residential mortgages, auto loans, purchase of receivables, and unsecured consumer lending) and for individually significant loans and advances where there is no objective evidence of individual impairment yet. Allowances are evaluated on each statement of condition date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even if there is no objective evidence of impairment in an individual assessment yet. Impairment losses are estimated by taking the following information into consideration: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by Credit Committee to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. It is the Group's primary objective to ensure payment of maturing financial obligations and commitments as these fall due and be able to fund contingency requirements as well when these arise. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The ALCO ensures that at all times, the Group maintains adequate liquidity, has sufficient capital and appropriate funding. The balance between cost and liquidity as well as any issues among business lines are resolved by the ALCO.

It is the Group's policy that proprietary trading and investment position are taken from long-term deposits. A significant portion of the Group's deposits can be considered long-term, due to a relatively high rollover ratio of its term deposits and its current and savings account. The high-yielding securities, which are relatively easy to liquidate in the event a fund need arises, are used to match the duration profile of the deposits.

It is the Group policy that liquidity risk exposure be limited to what the Group can fund given its available sources of funds. The subject exposure should not exceed the maximum cumulative outflow limits approved for the given period.

In addition, the Parent Company maintains liquidity and statutory reserve with the BSP equivalent to 18.00% of customer deposits for peso-denominated deposits only. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Parent Company.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

The Parent Company's liquidity risk is managed by holding sufficient liquid assets and of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio which is repaid on a regular basis. Deposits with banks are made on a short-term basis with almost all being available on demand or within one month.

The Treasury Group uses liquidity forecast models that estimate the Parent Company's cash flow needs based on the observed behavior of the deposits under normal circumstances and extraordinary circumstances. The plans and strategies in the liquidity risk management are contained on the Board-approved Treasury Operational and Contingency Funding Plan. The RMU prepares a Maximum Cumulative Outflow (MCO) report, which quantifies the Parent Company's liquidity mismatch risk monthly.

Liquidity is monitored by the Group on a daily basis and further analyzed at predetermined scenarios/situations. The table below shows the maturity profile of the financial instruments, based on the contractual maturity of principal and interest cash flows (in millions):

Financial assets

Analysis of equity and debt securities at fair value through profit or loss into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining term from the end of the reporting period to the expected liquidation date.

Financial liabilities

The maturity grouping is based on expected run-off derived from observed historical behavior. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay.

	On Demand	2013 Consolidated					Total
		1 to 3 months	3 to 12 months	1 to 5 Years	More than 5 years		
Financial Assets							
Cash and other cash items	P2,240	P	P	P	P		2,240
Due from BSP	11,301	7,500					18,801
Due from other banks	1,223						1,223
Interbank loans receivables and SPURA	164	75		171	3,619		75
Financial assets at FVPL	16	142	20	1,474	22,707		24,359
AFS investments	14,944	7,726	20	1,645	26,326		50,661
Loans and receivables							
Loans and discounts	10,068	8,313	6,325	14,348	13,740		52,794
Finance lease receivables	5	28	77	206			316
Loans and receivables financed	71	25	63	146			305
Customers' liabilities under acceptances and letters of credit/trust receipts							
Bills purchased	1,115	2,024	1,199				4,338
Unquoted debt securities	410						410
Accounts receivable	106	294		2,566	1,253		3,819
	26,719	18,410	7,684	18,911	41,319		113,043
Financial Liabilities							
Deposit liabilities							
Demand	27,212	25,266	3,527	43			27,212
Savings	7,622	5,652	1,721	2,161			36,488
LTNCD	61						9,595
	34,895	30,918	5,248	2,204	1,058		1,058
Bills payable		7,603			1,277		8,880
Manager's check	541						541
Accrued interest and other expense							
Payable	267			878			267
Derivative liability	226	402	1				226
Other liabilities	2,515						3,796
	38,444	38,923	5,249	3,082	2,335		88,033
Loan commitments and financial guarantees		442	286	1,956			2,684
	38,444	39,365	5,535	5,038	2,335		90,717
Liquidity Gap	(P11,725)	(P20,955)	P2,149	P13,873	P38,984		P22,326

	On Demand	2012 Consolidated					Total
		1 to 3 months	3 to 12 months	1 to 5 Years	P		
Financial Assets							
Cash and other cash items	P1,729	P	P	P	P		P1,729
Due from BSP	6,915	2,579					9,494
Due from other banks	1,558						1,558
Interbank loans receivables and SPURA		7					7
Financial assets at FVPL		35	23				1,463
AFS investments		41	43				12,033
	10,202	2,662	66	13,354			26,284
Loans and receivables							
Loans and discounts							
Finance lease receivables	4	2,366	5,736	21,250			29,352
Loans and receivables financed	14	51	124	157			206
Customers' liabilities under acceptances and letters of credit/trust receipts							
Bills purchased		3,522	82				189
Unquoted debt securities		719					3,608
Accrued interest receivable		5	16	2,052			719
Accounts receivable		198	69				2,073
		102	118	132			267
	10,220	9,645	6,236	36,949			352
Financial Liabilities							
Deposit liabilities							
Demand	2,409			15,784			18,193
Savings	2,756	8,996	3,227	5,419			20,398
Time	393	3,631	2,258	2,441			8,723
	5,558	12,627	5,485	23,644			47,314
Bills payable		1,582	12	1,589			3,183
Manager's check		190					190
Accrued interest and other expense							
Payable	284	37	7				328
Derivative liability	32			27			59
Other liabilities	1,317	907					2,224
	7,191	15,343	5,504	25,260			63,298
Loan commitments and financial guarantees		584	1,161	510	4		2,259
		7,775	16,504	6,014	25,264		55,557
Liquidity Gap	P2,445	(P6,859)	P222	P11,685			P7,493

2013

	Parent Company					Total
	On Demand	1 to 3 months	3 to 12 Months	1 to 5 Years	More than 5 years	
Financial Assets						
Cash and cash items	P2,235	P	P	P	P	P 2,235
Due from BSP	11,289	7,500				18,789
Due from other banks	1,172					1,172
Interbank loans receivables and						
SPURA	164	75		66	3,619	75
Financial assets at FVPL	16	133		1,098	22,707	3,858
AFS investments	14,876	7,717		1,164	26,326	23,954
	9,933	8,303	6,167	14,197	13,740	50,083
Loans and receivables						52,340
Loans and discounts						
Finance lease receivables						
Customers' liabilities under						
acceptances and letters of						
credit/ trust receipts						
Bills purchased	1,115	2,024	1,199			4,338
Unquoted debt securities	410			2,566	1,253	410
Accounts receivable		294				3,819
	26,334	18,338	7,366	17,927	41,319	294
						111,284
Financial Liabilities						
Deposit liabilities						
Demand	27,188					27,188
Savings	7,445	25,266	3,527	43		36,281
Time		5,586	1,703	1,971		9,260
LTNCD					1,058	1,058
	34,633	30,852	5,230	2,014	1,058	73,787
Bills payable		7,603			1,277	8,880
Manager's check	541					541
Accrued interest and other						
expense payable	267					267
Derivative liability	226					226
Other liabilities	2,505	395	1	868		3,769
	38,172	38,850	5,231	2,882	2,335	87,470
Loan commitments and financial						
Guarantees		442	286	1,956		2,684
	38,172	39,292	5,517	4,838	2,335	90,154
	(P11,838)	(P20,954)	P1,849	P13,089	P38,984	P21,130
Liquidity Gap						

2012

	Parent Company					Total
	On Demand	1 to 3 months	3 to 12 Months	1 to 5 Years	Over 5 Years	
Financial Assets						
Cash and cash items	P1,725	P	P	P	P	P1,725
Due from BSP	6,906	2,579				9,485
Due from other banks	1,436					1,436
Interbank loans receivables and						
SPURA		7				7
Financial assets at FVPL		35	23	1,169		1,227
AFS investments		36	43	11,677		11,756
	10,067	2,657	66	12,846		25,636
Loans and receivables						
Loans and discounts						
Finance lease receivables						
Customers' liabilities under						
acceptances and letters of						
credit/ trust receipts		3,522	82		4	3,608
Bills purchased		719				719
Unquoted debt securities		5	16	2,052		2,073
Accrued interest receivable		193	69			262
Accounts receivable		96	118	32		246
	10,067	9,231	5,416	33,793		58,507
Financial Liabilities						
Deposit liabilities						
Demand	2,396					18,180
Savings	2,695	8,966	3,197			20,275
Time	393	3,631	2,258			8,514
	5,484	12,697	5,455	23,433		46,969
Bills payable		1,484		1,589		3,083
Manager's check		190				190
Accrued interest and other						
expense payable	284	21	7			312
Derivative liability	32					59
Other liabilities	1,317	905				2,222
	7,117	15,207	5,462	25,049		52,835
Loan commitments and financial						
Guarantees	684	1,161	510			2,259
	7,701	16,368	5,972	25,053		55,094
	P2,366	(P7,137)	(P556)	P8,740		P3,413
Liquidity Gap						

The Group expects that not all of the contingent liabilities or commitments (see related information in Note 30) will be drawn before expiry of the commitments.

The maturity profile of the principal and contractual interest cash flows on major classes of the Group's financial liabilities and off-balance sheet financial guarantees and commitments, considering their contractual maturities are as follows (in millions):

	2013 Consolidated					Total
	On Demand	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 Years	
Deposits						
Demand	P27,212	P	P	P	P	P27,212
Savings	7,622	25,266	3,527	43		36,458
Time		5,629	1,712	2,161	900	10,402
Bills payable		7,872	153		1,277	9,302
Manager's checks	541					541
Loan commitments and						
financial guarantees						
	P35,375	P39,209	442	286	1,956	2,684
			P5,678	P4,160	P2,177	P86,599

	2012 Consolidated				
	On Demand	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Deposits					
Demand	P18,193	P	P	P	P
Savings	6,107	13,387	929	32	1
Time	116	5,524	1,471	1,923	43
Bills payable	1,184	640	10	4	659
Manager's checks	191				
Loan commitments and financial guarantees	584	1,161	510	4	2,259
	P25,275	P20,712	P2,920	P1,963	P703
					P52,573

	2013 Parent Company				
	On Demand	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Deposits					
Demand	P27,188	P	P	P	P
Savings	7,445	25,766	3,527	43	36,281
Time		5,493	1,703	1,971	900
Bills payable		7,596			1,277
Manager's checks	541				8,873
Loan commitments and financial guarantees	35,174	442	286	1,956	2,684
		38,797	5,516	3,970	2,177
					85,634

	2012 Parent Company				
	On Demand	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years
Deposits					
Demand	P18,180	P	P	P	P
Savings	5,969	13,357	919	32	20,277
Time		5,336	1,342	1,837	8,515
Bills payable	1,028	564			568
Manager's checks	191				2,150
Loan commitments and financial guarantees	584	1,161	510	4	2,259
	P25,962	P20,008	P2,771	P1,873	P568
					P51,572

Below is the maturity profile of the Parent Company's currency forward and swap contracts based on notional amounts as at December 31, 2013 and 2012:

	2013					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Over 12 months
Currency forwards buy	Bought	Bought	Bought	Bought	Bought	Bought
Currency swaps buy	Sold	Sold	Sold	Sold	Sold	Sold
	\$	\$	\$	\$	\$	\$
	61,000,000	2,679,387,000	8,500,000	371,527,500		
	2012					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Over 12 months
Currency forwards buy	Bought	Bought	Bought	Bought	Bought	Bought
Currency swaps buy	Sold	Sold	Sold	Sold	Sold	Sold
	\$	\$	\$	\$	\$	\$
	56,900,137	P293,600,941	\$12,672,212	P536,319,919		
	11,000,000	452,277,000				
	2013					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Over 12 months
Currency forwards sell	Bought	Bought	Bought	Bought	Bought	Bought
Currency swaps sell	Sold	Sold	Sold	Sold	Sold	Sold
	\$	\$	\$	\$	\$	\$
	P6,783,830,095	P156,180,101	P12,379,995,051	\$284,904,127		
	2012					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Over 12 months
Currency forwards sell	Bought	Bought	Bought	Bought	Bought	Bought
Currency swaps sell	Sold	Sold	Sold	Sold	Sold	Sold
	\$	\$	\$	\$	\$	\$
	P834,888,204	\$19,968,151	P572,026,400	\$13,500,000		
	2,461,190,000	60,000,000				

Refer to Note 8 for related liquidity information on derivative and structured products.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Parent Company classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a VaR methodology which reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses.

Market risk - Trading

The Board of Directors (BOD) has set limits on the amount of risk that is acceptable which the Risk Management Unit (RMU) monitors on a daily basis. The Risk Management Unit applies a Value-at-Risk (VaR) methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio over a specified time horizon at a given confidence level. Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits set by management.

Objectives and limitations of the VaR Methodology

The Parent Company uses VaR model, specifically the model-building approach, for interest rate and foreign exchange risk for the bank-wide foreign exchange position. These risks arise from holdings consisting mainly of fixed income securities (both peso and foreign denominated) and foreign exchange transactions. The Parent Company uses foreign exchange rates, treasury rates and credit default swap (CDS) rates as risk factors in measuring the VaR of securities in the trading portfolio.

The Parent Company uses VaR to assess possible changes in the market value of the trading portfolio based on historical data from the past 260 trading days. VaR models are designed to measure market risk based on the market conditions of the past 260 trading days. This model assumes that any changes occurring in the risk factors will follow a normal distribution. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day.

The VaR that the Parent Company measures is an estimate, at a confidence level of 99.00%, of the maximum potential loss that the company can incur if the current market risk positions were to be held unchanged for one day. The use of a 99.00% confidence level means that within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

Due to the fact that this VaR model assumes that price movements follow a normal distribution, it may be limited in measuring risk when the price movements are not normally distributed. Also, because VaR relies heavily on historical data to provide information, it may not be able to account for abnormal market movements.

Thus, VaR calculations are supplemented by stress test calculations to provide meaningful indications of profits and losses in stressed conditions. Also, to determine the reliability of the VaR models, back-testing process is performed quarterly to test the validity of the assumptions and the parameters used in the VaR calculation. Results of the Bank's backtesting exercise are reported to the Board on a regular basis. There were a total of two (2) exceptions on the Eurobond portfolio, six (6) exceptions on the Government Security (Php denominated) portfolio and four (4) exceptions in our FX portfolio.

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

	2013			2012		
	Foreign Exchange Risk In USD	Interest Rate Risk In Php	Interest Rate Risk In USD	Foreign Exchange Risk In USD	Interest Rate Risk In USD	Interest Rate Risk In USD
Total VaR	\$0.280	P12.25	P443.56	\$0.09	P3.69	P115.81
Average	0.209	9.15	329.54	0.18	7.40	176.63
Minimum	0.014	0.61	95.39	0.01	0.51	89.41
Maximum	0.482	21.09	589.68	0.41	17.54	304.13

In 2013, the following are the exceptions observed for the three trading portfolios for the month of December. The exceptions for all three portfolios (GS, Euro and FX) for Q2 and Q3 can be explained by the Federal Reserve's decision not to taper off on their stimulus package.

The other notable exceptions are from the GS portfolios (dated November 27 and 29), both can be attributed to BSP's new restrictions on access to the SDA facility in 2013.

Market Risk Disclosures on Exceptions on VaR

DIVAR = PHP 283 Mio	Notional MTM Loss (G\$)	DIVAR = \$5.3 Mio	Notional MTM Loss (E\$)	DIVAR = \$ - 279 Mio	Notional MTM Loss (E\$)
May 06, 2013	343.62	May 06, 2013	5.87	June 03, 2013	0.318
June 14, 2013	763.09	August 01, 2013	5.31	June 26, 2013	0.950
July 15, 2013	288.06			July 16, 2013	0.261
September 17, 2013	373.45	September 10, 2013			0.427
November 27, 2013	387.45				
November 29, 2013	321.25				

VaR assumptions

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

Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by management.

Market risk - Non-trading

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The BOD has established earnings at risk limits on the interest rate exposure. Positions are monitored on regular basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following provides the weighted EIR for each significant class of financial instruments of the Group and Parent Company:

AFS investments

In 2013, the average EIR for peso-denominated and US-dollar denominated AFS investments with maturity of less than a year is 11.8%, while the EIR of those with maturity of more than a year is 5.36% and 6.43%, respectively.

In 2012, the average EIR for peso-denominated and US-dollar denominated AFS investments with maturity of less than a year is 9.18% and 7.23%, respectively, while the EIR of those with maturity of more than a year is 6.45% and 7.14%, respectively.

In 2011, the average EIR for peso-denominated and US-dollar denominated AFS investments with maturity of less than a year is 5.75% and 2.92%, respectively, while the EIR of those with maturity of more than a year is 5.86% and 7.80%, respectively.

Loans and receivables

In 2013, the average EIR for peso-denominated and US-dollar denominated loans and receivables with maturity of less than a year is 4.94% and 4.12%, respectively, while the EIR of those with maturity of more than a year is 7.20% and 5.50%, respectively.

In 2012, the average EIR for peso-denominated and US-dollar denominated loans and receivables with maturity of less than a year is 5.48% and 4.28%, respectively, while the EIR of those with maturity of more than a year is 7.70% and 4.40%, respectively.

In 2011, the average EIR for peso-denominated and US-dollar denominated loans and receivables with maturity of less than a year is 5.34% and 3.71%, respectively, while the EIR of those with maturity of more than a year is 8.48% and 3.04%, respectively.

Deposits liabilities

In 2013, the average EIR for peso-denominated and US-dollar denominated deposit liabilities with maturity of less than a year is 0.87% and 1.27%, respectively, while the EIR of those with maturity of more than a year is 4.34% and 5.75%, respectively.

In 2012, the average EIR for peso-denominated and US-dollar denominated deposit liabilities with maturity of less than a year is 1.38% and 1.19%, respectively, while the EIR of those with maturity of more than a year is 5.85% and 5.50%, respectively.

In 2011, the average EIR for peso-denominated and US-dollar denominated deposit liabilities with maturity of less than a year is 1.61% and 1.20%, respectively, while the EIR of those with maturity of more than a year is 6.41% and 5.50%, respectively.

Bills payable

In 2013, the average EIR for US-dollar denominated bills payable with maturity of less than a year is 0.69%, while the EIR for peso-denominated bills payable with maturity of more than a year is 1.00%.

In 2012, the average EIR for US-dollar denominated bills payable with maturity of less than a year is 1.02%, while the EIR for peso-denominated bills payable with maturity of more than a year is 1.00%.

In 2011, the average EIR for peso-denominated and US-dollar denominated bills payable with maturity of less than a year ranges from 4.00% to 7.00% and from 0.25% to 1.83%, respectively, while the EIR for peso-denominated bills payable with maturity of more than a year is 4.00%.

The Parent Company's repricing gap is calculated by distributing the accounts into tenor buckets according to the time remaining to the next repricing date and then obtaining the difference between the total of the repricing (interest sensitive) assets and repricing (interest sensitive) liabilities.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. Accordingly, during a period of rising interest rates, a bank with a positive gap would be better positioned than one with a negative gap to invest in or hold higher yielding assets more quickly than it would need to refinance its interest-bearing liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

The following table sets forth the asset-liability gap position of the Parent Company as at December 31, 2013 and 2012 (amounts in millions):

	Up to 1 Month	> 1 to 3 months	> 3 to 12 months	> 12 months	Total
Assets					
Loans and receivables	P20,970	P8,167	P5,916	P6,634	P41,687
Trading and investment securities	16	151	-	25,273	25,440
Placements with other banks		75			75
Total assets	20,986	8,393	5,916	31,907	67,202
Liabilities					
Deposit liabilities	18,169	12,600	40,542	2,139	73,450
Bills payable	1,989	2,034		1,277	5,300
Total liabilities	20,158	14,634	40,542	3,416	78,750
Asset-liability gap	P828	(P6,241)	(P34,626)	P28,491	(P11,548)

	Up to 1 month	> 1 to 3 months	> 3 to 12 months	> 12 months	Total
Assets					
Loans and receivables	P17,347	P6,837	P3,942	P6,069	P34,195
Trading and investment securities	281	20	2	11,232	11,535
Placements with other banks	2,593		4		2,597
Total assets	20,221	6,857	3,948	17,301	48,327
Liabilities					
Deposit liabilities	11,445	7,247	26,410	1,867	46,969
Bills payable		1,781	125	568	2,474
Total liabilities	11,445	9,028	26,535	2,435	49,443
Asset-liability gap	P8,776	(P2,171)	(P22,587)	P14,866	(P1,116)

The Parent Company also monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on the Parent Company's networth. This is done by modeling the impact of various changes in interest rates to the Parent Company's net interest positions.

Given the repricing position of the assets and liabilities of the Parent Company, if interest rates increased by 10 basis points, the Parent Company would expect annualized net interest income to decrease by P3.15 million and P3.88 million and increase in 2013 and 2012, respectively. This sensitivity analysis is performed for risk management purposes and assumes no other changes in the repricing structure. Actual changes in net interest income will vary.

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The BOD has set limits on the US dollar and aggregate third currency positions. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained with established limits.

The Parent Company's foreign currency risk originates from its holdings of foreign currency denominated assets (foreign exchange assets), foreign currency denominated liabilities (foreign exchange liabilities) and foreign currency contingent positions.

Foreign exchange liabilities generally consist of foreign currency deposits in the Parent Company's FCDU and foreign currency-denominated borrowings in the FCDU and RBU books of the Parent Company. Foreign exchange liabilities are used to fund the Parent Company's foreign currency denominated loans and securities portfolio in the FCDU. The Parent Company maintains at least 100.00% asset cover to match the foreign exchange assets with the foreign exchange liabilities held through FCDU and maintains 30.00% liquidity cover as required under current BSP regulations.

The Parent Company's policy is to maintain net open foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Parent Company believes that its profile of foreign currency exposure on its resources and liabilities is within limits for financial institutions engaged in the same type of businesses in which the Parent Company is engaged in.

The following table summarizes the Parent Company's exposure to foreign exchange risk as at December 31, 2013 and 2012.

	2013		
	USD	Other Currencies	Total
Assets			
Cash and other cash items	\$8,685,155	\$133,617	\$8,818,772
Due from other banks	12,819,923	4,951,318	17,771,241
IBLR	1,679,694	-	1,679,694
Financial assets at FVPL	15,533,135	-	15,533,135
AFS investments	388,750,416	-	388,750,416
Loans and receivables	115,016,553	456,402	115,472,955
Total financial assets	542,484,876	5,541,337	548,026,213
Liabilities			
Deposit liabilities	181,943,801	2,867,896	184,811,697
Bills payable	170,949,179	-	170,949,179
Accrued interest and other expenses	634,152	-	634,152
Derivative liabilities	8,354,547	-	8,354,547
Other liabilities	8,723,104	-	8,723,104
Total financial liabilities	370,604,783	2,867,896	373,472,679
Currency Swaps and Forwards	(209,252,275)	(209,252,275)	(209,252,275)
Net Exposure	(\$37,372,182)	\$2,673,441	(\$34,698,741)

2012

	USD	Other Currencies	Total
Assets			
Cash and other cash items	\$5,037,342	\$182,855	\$5,220,197
Due from other banks	17,525,196	3,613,446	21,138,642
IBLR	163,093	-	163,093
Financial assets at FVPL	25,475,400	-	25,475,400
Derivative Asset	2,185,140	-	2,185,140
AFS investments	194,137,826	-	194,137,826
Loans and receivables	97,087,233	548,202	97,635,435
Total financial assets	\$341,611,230	\$4,344,503	\$345,955,733
Liabilities			
Deposit liabilities	\$215,537,966	\$2,539,782	\$218,077,748
Bills payable	38,529,581	-	38,529,581
Accrued interest and other expenses	452,446	-	452,446
Derivative liabilities	707,854	-	707,854
Other liabilities	19,121,196	521,725	19,642,921
Total financial liabilities	274,349,043	3,061,507	277,410,550
Currency Swaps and Forwards	(69,848,350)	-	(69,848,350)
Net Exposure	\$7,413,837	\$1,282,996	\$8,696,833

Information related to currency derivatives are shown in Note 8.

The impact of the range of reasonably possible changes in the US Dollar-Philippine Peso exchange rate in 2013 and 2012 has been included in the VaR summary (see VaR discussion under Market Risk).

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Internal Capital Adequacy Assessment Process

In compliance with BSP Circular No. 639, *Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review Process (SRP)*, the Parent Company presented to the BSP its Stage 1 ICAAP on November 6, 2009.

The Stage 1 presentation included an overview of the Parent Company's organizational chart, composition of statement of condition, and key products and services offered. Given the Parent Company's three-year strategic outlook, a capital adequacy analysis was developed given the risks identified based on its statement of condition and operational structure. BSP Circular No. 538, *Revised Risk-Based Capital Adequacy Framework*, provides the guidelines to determine capital charges for market and credit risks. Other risks such as operational, reputational, legal and compliance risks were based on some assumptions using historical data.

The Stage 2 incorporated all the changes required from the Stage 1 discussion. These are as follows:

- The Parent Company performed various stress test scenarios and measured its impact to the Tier 1 capital ratio and total capital adequacy ratio (CAR) of the Parent Company.
- The Parent company presented a more detailed capital planning framework including an alternative approach in capital charge determination on top of what is required by Basel II.
- The Parent Company presented a detailed description of the ICAAP methodology used for each of the risks identified by the company.

This exercise has raised awareness in the Parent Company's organization in improving its controls on processes and has allowed the Parent Company to redefine its strategy and risk appetite in investments and lending activities and its impact to the Parent Company's capital.

5. Fair Value Measurement

The following table presents a comparison by category and class of the carrying amounts and estimated fair values of the Group's financial instruments as at December 31, 2013 and 2012. Financial instruments whose carrying value equal their fair values are not shown.

	Consolidated		
	2013	2012	
	Carrying Value	Fair Value	Carrying Value
Financial Assets			
Loans and receivables			
Corporate lending	P22,138,119,911	P30,926,713,458	P21,293,453,349
Consumer lending	6,033,313,960	5,449,283,175	4,519,573,091
Finance lease receivables	264,919,347	296,882,207	182,537,499
Loans and receivables financial	279,387,472	242,080,040	120,516,156
Customers' liabilities under			
acceptances and letters of			
credit/trust receipts	4,262,877,455	4,308,195,534	3,594,111,370
Unquoted debt securities	3,440,407,934	3,234,972,029	3,366,432,703
	46,419,026,099	44,458,126,447	P31,964,015,591
			P33,210,874,540
Financial Liabilities			
Other liabilities			
Deposit liabilities			
Time	9,459,072,778	8,881,560,049	8,761,468,386
LTNCD	900,000,000	489,915,178	
	P10,359,072,778	P9,371,475,227	P8,761,468,386
			P9,097,538,746
Parent Company			
	2013	Fair Value	2012
	Carrying Value	Fair Value	Carrying Value
Financial Assets			
Loans and receivables			
Corporate lending	P32,042,255,593	P30,827,366,074	P20,444,917,403
Consumer lending	5,889,455,791	5,169,036,932	4,054,841,242
Customers' liabilities under			
acceptances and letters of			
credit/trust receipts	4,262,877,455	4,308,195,534	3,594,111,370
Unquoted debt securities	3,440,407,934	1,448,098,818	3,356,432,703
	P45,634,996,773	P41,752,697,358	P31,460,302,718
			P32,877,086,823
Financial Liabilities			
Other liabilities			
Deposit liabilities			
Time	P9,125,400,448	P8,548,003,353	P8,514,852,822
LTNCD	900,000,000	489,915,178	
	P10,025,400,448	P9,037,918,531	P8,514,852,822
			P9,097,538,746

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are as follows:

Cash and other cash items, due from BSP and other banks, IBLF and SPURA - The carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits and floating rate placements.

Financial assets at FVPL and AFS investments

Debt securities - Fair values are generally based on quoted market prices. When the market prices are not readily available, the Group used adjusted quoted market prices of comparable investments or applied discounted cash flow methodologies. The prevailing interest rates used range from 5.88% to 8.13% and from 0.00% to 5.38% for peso denominated securities in 2013 and 2012, respectively, while the prevailing interest rates used range from 3.75% to 11.50%, and from 5.00% to 11.5% for dollar denominated securities, in 2013 and 2012, respectively.

Equity securities - The Group's investments in equity securities include quoted and unquoted shares of stocks.

Fair values of quoted equity securities are based on quoted market prices. Unquoted equity securities are carried at cost, less any accumulated impairment in value due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Loans and receivables - Fair values of loans and receivables are estimated using the discounted cash flow methodology, using Philippine risk-free rates. Where the instrument repurchases on a quarterly basis or has a relatively short maturity, the carrying amounts approximate fair values. Prevailing rates used range from 0.05% to 4.00% and from 0.17% to 5.70% in 2013 and 2012, respectively.

In the case of structured products classified as unquoted debt securities, the Group uses the option pricing model, where inputs used include actual principal writedown to date, forward credit default swaps (CDS), volatility of the CDS and the related interest rate, which are all considered as observable inputs for the valuation.

Derivative instruments - Fair values are estimated based on accepted market valuation models, quoted market prices or prices provided by independent parties, if available. The most frequently applied valuation techniques include forward pricing and swap model using present value calculations, as well as option models using volatility assumptions. The models incorporate various inputs including the credit quality of counterparties, foreign exchange rates and interest rate curves prevailing at the statement of condition date.

Deposit liabilities (demand and savings deposits excluding time deposits and LTNCD) - Carrying amount approximates fair values considering that these are currently due and demandable.

Time deposits, LTNCD, and other financial liabilities - Fair values of liabilities are estimated using the discounted cash flow methodology using risk-free rates whose tenors are consistent with those remaining for the liability being valued. For accrued interest and other expenses and other liabilities, carrying amount approximates fair values due to their short term nature.

Bills payable - Carrying amounts approximate fair values considering that these are short-term payables.

Fair value hierarchy

The Group has assets and liabilities that are measured at fair value on a recurring basis in the statement of financial position after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the statement of financial position at the end of each reporting period. These include financial assets at FVPL and AFS investments.

The Group uses a hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique (see Note 2).

The Group held the following assets and liabilities measured at recurring and non-recurring fair value measurements, and assets and liabilities for which fair values are disclosed, at their corresponding level in the fair value hierarchy:

	Consolidated			Total
	Level 1	Level 2	Level 3	
Assets measured at fair value				
Recurring fair value				
Financial assets at FVPL:				
Held-for-trading securities				
Government securities	P 3,114,238,422		P	P3,114,238,422
Private commercial papers	578,403,532			578,403,532
Designated at FVPL				
Quoted equity securities	105,362,817			105,362,817
Derivative assets				
Freestanding derivatives				
Currency forwards and swaps		15,455,316		15,455,316
RDP warrants	683,766,349	3,125,693,738	96,604,281	96,604,281
				3,910,064,368
AFS investments				
Government securities		14,032,454,905		14,032,454,905
Private bonds and commercial papers	10,276,956,217			10,276,956,217
Quoted equity securities	1,500,000			1,500,000
	P10,278,456,217	P14,032,454,905	P	P24,310,911,122
Liabilities measured at fair value				
Recurring fair value				
Derivative liabilities				
Freestanding derivatives				
Currency forwards and swaps	P 226,330,719		P	P226,330,719
Embedded derivatives		370,900,106		370,900,106
	P	P597,230,825	P	P597,230,825

Consolidated
December 31, 2013

	Level 1	Level 2	Level 3	Total
Assets for which fair values are disclosed				
Loans and receivables				
Corporate lending	P	P30,926,713,458	P	P30,926,713,458
Consumer lending		5,449,283,179		5,449,283,179
Finance lease receivables		296,882,207		296,882,207
Loans and receivables financed		242,080,040		242,080,040
Customers' liabilities under acceptances and letters of credit/trust receipts				
Unquoted debt securities	P	4,308,195,534		4,308,195,534
		1,448,098,818		1,448,098,818
	P	P42,671,253,236	P	P42,671,253,236
Investment properties				
Land	P	P1,189,349,448		P1,189,349,448
Building and improvements		379,559,714		379,559,714
	P	P1,568,909,162	P	P1,568,909,162
Liabilities for which fair values are disclosed				
Deposit liabilities				
Time	P	P8,881,560,049	P	P8,881,560,049
LTNCD		489,915,178		489,915,178
	P	P9,371,475,227	P	P9,371,475,227

2012

	Level 1	Level 2	Total
Financial Assets at FVPL			
Held-for-trading securities	P1,318,448,847	P	P1,318,448,847
Derivative assets		123,526,306	123,526,306
	1,318,448,847	123,526,306	1,441,975,153
AFS Investments			
Government securities	4,271,705,822		4,271,705,822
Private bonds and commercial papers	4,610,426,391	1,594,358,950	6,204,785,341
Quoted equity securities	9,195,392,860	1,594,358,950	10,790,751,810
	P10,514,841,707	P1,717,885,256	P12,232,726,963
Financial Liabilities			
Derivative liabilities	P	P58,837,248	P58,837,248

Parent
December 31, 2013

	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Recurring fair value				
Financial assets at FVPL:				
Held-for-trading securities	P	P3,114,238,422	P	P3,114,238,422
Private commercial papers				
Derivative assets	P578,403,532			P578,403,532
Freestanding derivatives				
Currency forwards and swaps		15,455,316		15,455,316
ROP warrants				
	578,403,532	3,129,693,738	96,604,281	96,604,281
			96,604,281	3,804,701,551
AFS Investments				
Government securities				
Private bonds and commercial papers		13,661,110,641		13,661,110,641
	10,276,956,217			10,276,956,217
	P10,276,956,217	P13,661,110,641	P	P23,938,066,858

Parent
December 31, 2013

	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value				
Recurring fair value				
Derivative liabilities				
Freestanding derivatives	P	P226,330,719	P	P226,330,719
Currency forwards and swaps				
Embedded derivatives		370,900,106		370,900,106
	P	P597,230,825	P	P597,230,825
Assets for which fair values are disclosed				
Loans and receivables				
Corporate lending	P	P30,927,366,074	P	P30,927,366,074
Consumer lending		5,169,036,932		5,169,036,932
Customers' liabilities under acceptances and letters of credit/trust receipts	P	P4,308,195,534	P	P4,308,195,534
Unquoted debt securities		1,448,098,818		1,448,098,818
	P	P41,752,697,358	P	P41,752,697,358
Investment properties				
Land	P	P1,126,353,714	P	P1,126,353,714
Building and improvements		379,809,564		379,809,564
	P	P1,500,163,278	P	P1,500,163,278
Liabilities for which fair values are disclosed				
Deposit liabilities				
Time	P	P8,546,003,353	P	P8,546,003,353
LTNCD		489,915,178		489,915,178
	P	P9,037,919,531	P	P9,037,919,531

2012

	Level 1	Level 2	Total
Financial Assets at FVPL			
Held-for-trading securities	P1,083,172,397	P	P1,083,172,397
Derivative assets		123,526,306	123,526,306
	1,083,172,397	123,526,306	1,206,698,703
AFS Investments			
Government securities	P3,974,312,845	P	3,974,312,845
Private bonds and commercial papers	4,610,426,391	1,594,358,950	6,204,785,341
Quoted equity securities	314,260,647		314,260,647
	8,998,999,883	1,594,358,950	10,493,358,833
	P9,982,172,280	P1,717,885,256	P11,700,057,536
Financial Liabilities			
Derivative liabilities	P	P58,837,248	P58,837,248

In 2013, the fair value measurement of government securities classified as FVPL and AFS investments are transferred from Level 1 to Level 2 of the fair value hierarchy.

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

The fair values of warrants have been determined using price quotes received from a third-party broker without any pricing adjustments imputed by the Parent Company. The valuation model and inputs used in the valuation which were developed and determined by the third-party broker were not made available to the Parent Company. Under such instance, PFRS 13 no longer requires an entity to create quantitative information to comply with the related disclosure requirements.

The fair value of the investment properties, measured at Level 3, has been determined based on valuations made by accredited external and/or in-house appraisers on the basis of recent sales transactions of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. They make use of market data approach which involves correlation and analysis of comparable lots, either recently sold or offered for sale in the market, upon which the market value of subject property is estimated.

The significant unobservable inputs used in the valuation of the Group's investment properties are as follows:

Significant Unobservable Inputs	
Price per square meter	The unit price assigned to the property
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Corner influence	Bounded by two (2) roads

6. Operating Segments

The Group's main operating businesses are organized and managed primarily, according to the current organizational structure. Each segment represents a strategic business unit that caters to the Group's identified markets. The Group's business segments are:

- Commercial - this segment provides lending, trade and cash management services to corporate and institutional customers, which include large corporate, middle market clients and entrepreneurs;
- Consumer - this segment offers consumer banking services to retail customers. Consumer lending products include real estate loans, salary loans, auto loans and pension loans;
- Treasury - this segment is responsible for the execution of the Group's strategic treasury objective set forth in the Group's Treasury Operating Plan, which outlines the Group's strategies in terms of proprietary trading, liquidity, risk, capital, tax management, among others. Treasury segment's functions include managing the Group's reserve and liquidity position and maintaining its balance sheet by investing in sovereign and corporate debt instruments, commercial paper and other securities in the Philippines and other emerging markets. The Treasury segment is also responsible for managing the Group's foreign currency exposure, engaging in proprietary trading of currencies and offering foreign exchange instruments to the Group's corporate customers, as well as the Group's investment portfolio, which is managed with a view to maximizing efficiency and return on capital;
- Branch Banking - this segment offers retail deposit products, including current accounts (interest bearing and non-interest bearing demand deposits), savings accounts and time deposits in pesos and U.S. dollars. Branch banking segment also provides lending to corporate and institutional customers through its own lending centers situated in selected branches; and
- Others - this segment includes the Group's income from trust activities, remittances and gains on foreclosure.

The President, being the Group's Chief Operating Decision Maker (CODM), monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment assets are those operating assets employed by a segment in its operating activities and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Interest income is reported net, as management primarily relies on the net interest income as performance measure, not the gross income and expense.

The Group's revenue-producing assets are located in the Philippines (i.e., one geographical location); therefore, geographical segment information is no longer presented. The Group has no significant customers which contribute 10.00% or more of the consolidated revenue, net of interest expense.

The segment results include internal transfer pricing adjustments across business units as deemed appropriate by management. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to the business units based on a pool rate which approximates the marginal cost of funds.

Segment information of the Group as at and for the year ended December 31, 2013 and 2012 follow (amounts in millions):

	Consolidated				
	2013				Total Bankwide
Statement of income	Commercial	Consumer	Treasury	Branches	Others
Net interest income	P529	P498	P79	P1,773	P
Other income	485	123	647	105	274
Total operating income	1,014	621	726	1,878	274
Other operating expense	287	269	308	1,484	209
Provision*	133	70	180	98	481
Net income for the year	P594	P282	P238	P296	P65
Statement of condition					
Total assets	P36,976	P7,237	P53,879	P763	P 6,191
Total liabilities	-	964	11,540	74,489	-
Other segment information					
Depreciation and amortization	10	43	4	245	4
Provision for credit and impairment losses	161	57	67	26	-
					311

*Includes provision for credit and impairment losses and provision for (benefit from) income tax.

	Consolidated				
	2012				Total Bankwide
Statement of income	Commercial	Consumer	Treasury	Branches	Others
Net interest income	P521	P358	P28	P964	P
Other income	113	57	1,269	150	213
Total operating income	634	415	1,297	1,114	213
Other operating expense	(251)	(198)	(232)	(1,053)	(148)
Provision*	(126)	(13)	(265)	47	2
Net income for the year	P257	P204	P800	P108	P67
Statement of condition					
Total assets	P25,838	P5,682	P32,139	P1,339	P
Total liabilities	-	433	3,182	49,637	-
Other segment information					
Depreciation and amortization	12	11	7	163	4
Provision for credit and impairment losses	159	23	241	2	-
					425

*Includes provision for credit and impairment losses and provision for (benefit from) income tax.

7. Interbank Loans Receivable and SPURA

Interbank loans receivables of Group and Parent Company amounted to P74.57 million and P65.69 million as of December 31, 2013 and 2012, respectively.

In 2013, 2012 and 2011, interest rate of peso-denominated IBLR ranges from 2.00% to 3.13%, 3.88% to 4.75% and 4.13% to 4.75%, respectively, while interest rate of dollar-denominated IBLR in 2013, 2012, and 2011 ranges from 0.07% to 1.22%, 0.05% to 1.55%, and 0.06% to 1.75%, respectively.

In 2013 and 2012, the Group availed of SPURA which are overnight placements with the BSP where the underlying securities cannot be sold or repledged. As at December 31, 2013 and December 31, 2012, the Parent Company has no outstanding SPURA booked under HBU and FCDU. In 2013, 2012 and 2011, interest rate of SPURA ranges from 3.50% to 3.63%, 3.50% to 4.50% and 4.00% to 4.69%, respectively.

8. Trading, Investment and Derivative Securities

This account consists of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
		(As restated)		(As restated)
Financial assets at FVPL	P3,910,064,368	P1,441,975,153	P3,804,701,551	P1,206,698,703
AFS investments	24,327,231,846	10,793,783,679	23,954,387,582	10,495,242,969
	P28,237,296,214	P12,235,758,832	P27,759,089,133	P11,701,941,672

Financial Assets at FVPL

This account consists of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Held-for-trading securities				
Government securities	P3,114,238,422	P332,221,474	P3,114,238,422	P332,221,474
Private commercial papers	578,403,532	750,950,923	578,403,532	750,950,923
	3,692,641,954	1,083,172,397	3,692,641,954	1,083,172,397
Designated at FVPL				
Quoted equity securities	105,362,817	235,276,450	112,059,597	123,526,306
Derivative assets	112,059,597	123,526,306	P3,804,701,551	P1,206,698,703
	P3,910,064,368	P1,441,975,153	P3,804,701,551	P1,206,698,703

Held-for-trading securities

Government securities bear interest rates ranging from 2.20% to 4.85% per annum and have maturities ranging from 2014 to 2049. Private bonds and commercial papers consist of foreign currency-denominated bonds issued by domestic and foreign corporations with interest rates ranging from 1.48% to 9.17% per annum and have maturities ranging from 2017 to 2049. In 2013, 2012 and 2011, fair value gains (losses) on government securities and private bonds and commercial papers included in Trading and securities gain (loss) - net in the statement of income amounted to (P270.33 million), P746.84 million and P677.39 million for the Group, and (P276.28 million), P746.84 million and P677.39 million for the Parent Company, respectively.

Financial assets designated at FVPL

The quoted equity securities pertain to investments in preferred shares held by AULFC, a subsidiary. In 2013 and 2012, the AULFC earned dividend income amounting to P13.79 million and P4.67 million, respectively.

Derivatives

The Group's derivatives consist of freestanding foreign currency swap and forward contracts, as well as derivatives embedded in AFS investment securities. As at December 31, 2013 and 2012, the Parent Company also has outstanding freestanding warrants that allow the conversion of USD ROP securities into peso-denominated government securities should a credit event (e.g., default) in ROP securities occur.

The movements in the valuation of the Parent Company's derivative transactions for both free standing and embedded derivatives follow:

	2013		2012	
Derivative Assets				
Balance at beginning of year		P123,526,306		P129,397,759
Biturcation of embedded derivatives				7,689,020
Fair value changes during the year		18,313,114		14,764,392
Settled transactions		(29,779,823)		(28,324,865)
Balance at end of year		P112,059,597		P123,526,306
Derivative Liabilities				
Balance at beginning of year		P58,837,248		P249,551,556
Biturcation of embedded derivatives		398,139,865		45,237,543
Fair value changes during the year		205,571,980		(73,443,494)
Settled transactions		(65,318,268)		(162,508,357)
Balance at end of year		P597,230,825		P58,837,248

Fair value changes in the warrants and embedded derivatives amounting to P33.30 million, P10.68 million and (P242.70 million) are recognized under 'Trading and Securities gain - net' in 2013, 2012 and 2011, respectively, while fair value changes in the foreign exchange transactions amounting to (P220.56 million), P77.53 million and P13.53 million are recognized under 'Foreign exchange gain (loss) - net' in 2013, 2012, and 2011, respectively.

The table below shows the fair values of derivative financial instruments recorded as derivative assets or derivative liabilities identified according to types, together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as at December 31, 2013 and 2012 and are not indicative of either market risk or credit risk.

The table below shows the fair values of derivative financial instruments of the Parent Company:

	2013		2012	
	Assets	Liabilities	Assets	Liabilities
Freestanding derivatives				
Currency forwards	P -	P226,330,719	P33,593,938	P3,011,442
and swaps sold				2012: US\$93,468,151
Currency forwards	P15,455,316	-	232,365	26,768,381
and swaps bought				2013: US\$37,500,000
ROP warrants	96,604,281	-	88,856,769	2012: US\$30,572,249
Embedded derivatives	-	370,900,106	843,234	-
				2012: US\$201,358
				Consist of calls, puts and other interest rate options, embedded in investment securities
	P112,059,597	P597,230,825	P123,526,306	P58,837,248

The average forward and swap rates (per US\$1) for the currency derivatives transactions are as follows:

	2013	2012
Sold	43.48	41.43
Bought	43.96	42.00

The embedded derivative assets consist of interest rate-related derivatives, in particular, put options on AFS investments held by the Parent Company. The embedded derivative liabilities consist of interest-rate related derivatives such as prepayment and call. The following table shows the composition of the embedded derivatives according to their underlying factors:

Interest-rate related derivatives:	2013	2012
Derivative assets		P843,234
Derivative liabilities	P370,900,106	P29,057,425

The derivatives embedded in the structured products recorded under AFS Investments matured in 2012 together with the host notes.

AFS investments
This account consists of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
		(As restated)		(As restated)
Government securities	P14,032,454,905	P4,271,705,822	P13,661,110,641	P3,974,312,845
Private bonds and commercial papers	10,276,956,217	6,204,785,341	10,276,956,217	6,204,785,341
Quoted equity securities	1,500,000	314,260,647	1,500,000	314,260,647
Unquoted equity securities	40,115,276	25,033,588	40,115,276	23,885,855
Less allowance for impairment losses (Note 16)	24,351,026,398	10,815,785,398	23,978,182,134	10,517,244,688
	23,794,552	22,001,719	23,794,552	22,001,719
	P24,327,231,846	P10,793,783,679	P23,954,387,582	P10,495,242,969

Government securities include fixed treasury notes, treasury bills and government-owned corporate bonds and notes that bear interest rates per annum ranging from 2.88% to 15.17% and 0.00% to 5.38% and 5.75% to 9.50% in 2013, 2012 and 2011, respectively, and have maturities ranging from 2014 to 2049. As at December 31, 2013 and December 31, 2012, government securities with face value of ₱1.43 billion and ₱1.30 billion, respectively are pledged to PDIC as security for the financial assistance received (see Note 35).

Private bonds and commercial papers consist of fixed term and perpetual debt instruments with call and put options and foreign currency denominated Philippine bonds with annual interest rates ranging from 6.73% to 15.17% and from 3.67% to 13.98% and from 5.75% to 12.50% in 2013, 2012 and 2011, respectively, and have maturities ranging from 2017 to 2049 for the fixed term securities.

As of December 31, 2013, quoted equity securities consist of quoted investment in golf shares held by AULFC. As of December 31, 2012, quoted equity securities of the Parent Company composed of global depository receipts received from the restructuring of impaired debt investments in 2010 amounting to ₱14.85 million, ING securities amounting to ₱280.56 million and local listed shares acquired from ATB amounting to ₱18.98 million. All of these shares were sold in 2013.

Unquoted equity securities are composed of the Parent Company's membership shares in Bancnet, Philippine Clearing House Corporation (PCHC), Banker's Association of the Philippines (BAP), Megalink, Forest Hills Club and Alliance Bank. These unquoted equity securities are carried at cost net of impairment, since these securities are not traded in an active market. Accumulated impairment of the Alliance Bank equity securities amounts to ₱8.45 million as at December 31, 2013 and 2012.

The movement in net unrealized gain (loss) on AFS investments of the Group and the Parent Company follows (amounts in thousands):

	Consolidated			Parent Company		
	2013	2012	2011	2013	2012	2011
Balance at beginning of year	₱533,701	₱417,913	₱15,108	₱528,876	₱426,891	₱12,182
Movements in fair value gain (loss) for the year	(1,503,221)	1,570,015	(61,051)	(1,528,428)	1,548,416	(83,121)
Gain realized in profit and loss	(918,026)	(618,401)	(371,970)	(874,990)	(593,649)	(355,952)
Net change during the year	(2,421,247)	951,614	(433,021)	(2,403,418)	955,767	(439,073)
Balance at end of year	₱(1,887,546)	₱533,701	₱417,913	₱(1,874,542)	₱528,876	₱(426,891)

Interest Income

Details of interest income on trading and investment securities of the Group and the Parent Company follow (amounts in thousands):

	Consolidated			Parent Company		
	2013	2012	2011	2013	2012	2011
AFS investments	₱1,116,060	₱579,587	₱786,816	₱1,104,279	₱568,812	₱782,626
Financial assets at FVPL	207,462	128,301	110,278	207,462	128,301	110,278
	₱1,323,522	₱707,888	₱897,094	₱1,311,741	₱697,113	₱892,903

Trading and securities gains - net

Details of this account of the Group and Parent Company follow (in millions):

	Consolidated			Parent Company		
	2013	2012	2011	2013	2012	2011
Financial assets at FVPL						
Held-for-trading	(₱270.93)	₱746.84	₱677.39	(₱276.28)	₱746.84	₱677.39
Derivatives	33.30	10.68	(242.70)	33.30	10.68	(242.70)
Available-for-sale investments*	918.03	618.40	371.97	874.99	593.65	355.95
Maturity and redemption of certain structured products		(206.62)			(206.62)	
	₱680.40	₱1,169.30	₱806.66	₱632.01	₱1,144.55	₱790.64

*Excluding structured products classified under available-for-sale investments

In 2012, the Group and the Parent Company recorded a ₱206.62 million loss pertaining to the maturity and redemption of certain structured products that were classified in UDCL and AFS investments.

9. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2013	2012 (As restated)	2013	2012 (As restated)
Loans and discounts				
Corporate lending	₱32,717,733,276	₱21,563,249,955	₱32,621,868,958	₱21,510,344,446
Consumer lending	6,342,737,409	4,729,605,071	6,139,513,604	4,572,681,349
	39,060,470,685	26,292,855,026	38,761,382,562	26,083,025,795
Finance lease receivables	315,912,188	205,523,950	-	-
Loans and receivables financed	295,472,042	184,146,871	-	-
	39,671,854,915	26,682,525,847	38,761,382,562	26,083,025,795
Less unearned discounts and unearned lease/finance income				
	119,000,550	202,545,924	74,100,920	177,582,278
	39,552,854,365	26,479,979,923	38,687,281,642	25,905,443,517
Customers' liabilities under acceptances (Note 20)	362,762,010	542,388,957	362,762,010	542,388,957
Customers' liabilities on bills under letters of credit/trust receipts	3,960,930,627	3,056,095,349	3,960,930,627	3,056,095,349
Unquoted debt securities	3,819,770,012	3,652,627,443	3,819,770,012	3,652,627,443
Bills purchased (Note 20)	409,899,039	708,284,404	409,899,039	708,284,404
Accounts receivable	400,264,665	223,753,211	294,748,598	118,581,382
Accrued interest receivable	578,501,522	265,577,648	573,530,770	261,725,554
	49,084,982,240	34,929,705,935	48,108,922,698	34,245,146,606
Less allowance for credit losses (Note 16)	1,395,149,390	1,060,887,638	1,207,792,363	885,502,304
	₱47,689,832,850	₱33,868,818,297	₱46,901,130,335	₱33,359,644,302

Loans and receivables of the Parent Company amounting to ₱32.66 million as of December 31, 2012, have been rediscouted under the BSP, Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and Social Security System (SSS) rediscouting facilities (see Note 18).

Loans and receivables acquired from ATB

The Parent Company acquired, through business combination, loans and receivables from ATB having face value of ₱2.42 billion in 2013.

The separate valuation allowance of acquired loans and receivables were not recognized by the Parent Company as these receivables were measured at fair value on acquisition date. Any uncertainties about future cash flows of these receivables were included in the determination of the fair value. The fair value at the date of business combination amounted to ₱1.22 billion (see Note 35).

In 2013, the Parent Company wrote off some ATB loans having fair value of nil at the date of business combination. The face value of written-off accounts amounted to ₱697.7 million.

Unquoted Debt Securities Classified as Loans

The Group's unquoted debt securities classified as loans (UDSCL) consists of the Parent Company's investment in Home Development Mutual Fund (HDMF) and National Food Authority (NFA) bonds, as well as certain structured products. As of December 31, 2013 and 2012, the carrying value of the Group's holdings in the HDMF and NFA bonds amounted to ₱1.60 billion.

Structured products

As at December 31, 2013 and 2012, the Parent Company's structured notes booked under UDCL have outstanding principal amounts of US\$50.00 million, with carrying values (net of allowance) amounting to ₱1.84 billion (\$41.46 million) and ₱1.77 billion (\$43.03 million), respectively.

The Parent Company's structured products consist of debt securities with embedded credit derivatives. Credit derivatives are defined as financial contracts or agreements which produce pay-offs depending on credit-related events or variables on an identified reference entity or a group of reference entities. The embedded credit derivatives in the Parent Company's structured products include a credit default swap and a credit-linked range accrual. Some structured products have additional non-credit related features, like prepayment options.

The credit-default swap feature refers to the provision that interest and principal cash flows on the note will cease upon the occurrence of a credit event on the reference entity prior to maturity. As the investor, the Parent Company is the protection seller with respect to the embedded credit default swap, and will incur losses upon the occurrence of the said credit event. The range accrual feature refers to the provision that the contractual cash flows on the instruments will accrue to the investor subject to the condition that the reference CDS rate is within a specified range. For certain instruments, the range accrual applies only to the interest cash flows, whereas for others, the range accrual applies to both the principal and interest cash flows, in which case the instrument is identified as having a principal dilution feature. In such cases, the Parent Company has the possibility of losing all or part of the amount of its principal invested.

The structured notes are referenced to the creditworthiness of the ROP. Contractual interest rates of the notes range from 0.50% to 7.00% in 2013 and 2012 and from 7.00% to 9.25% in 2011, with the changes being due to restructurings and from redemptions occurring over the years.

Of the US\$50.00 million, US\$20.00 million booked are free from the principal dilution feature. Maturities of these instruments ranged from 2015 to 2019 as at December 31, 2013 and 2012.

The Parent Company started to incur principal losses on the structured products with principal dilution feature starting in 2008, as the market dislocation that occurred following the financial crisis caused an abrupt shift in the level of CDS rates, causing the range accrual to fall outside the contractual ranges. The amount of principal on the instruments without the principal dilution features were not affected, but their yields were substantially reduced to near-zero levels, which resulted to a decrease in the liquidity, market recoverability and investment value of these instruments. The Parent Company measures the losses that are incurred on these instruments on a regular basis and records them under provision for credit losses (see Note 16).

Finance Lease Receivables and Loans and Receivable Financed

The table below presents the breakdown of gross and net investment in finance lease receivables of AULFC by contractual maturity dates as at December 31, 2013 and 2012:

	2013	2012
Gross investment in finance lease receivables due:		
Within one year	P103,144,843	P85,952,080
Beyond one year but not beyond five years	212,767,345	119,571,870
	315,912,188	205,523,950
Less unearned leasing income	39,381,866	13,099,308
	P276,530,322	P192,424,642
Net investment in finance lease receivables due:		
Within one year	P95,580,773	P80,516,885
Beyond one year but not beyond five years	180,949,549	111,907,757
	P276,530,322	P192,424,642

As at December 31, 2013 and 2012, past due and impaired finance lease receivables amounted to P4.78 million and P3.98 million, respectively.

The table below presents the breakdown of loans and receivables financed of AULFC by contractual maturity dates as at December 31, 2013 and 2012:

	2013	2012
Due within one year	P57,955,657	P36,657,514
Beyond one year but not beyond five years	202,025,895	122,245,586
Beyond five years	35,490,490	25,243,771
	P295,472,042	P184,146,871

As at December 31, 2013 and 2012, past due and impaired loans and receivables financed amounted to P72.16 million and P66.99 million, respectively.

Interest Income

Details of interest income on loans and receivables of the Group and the Parent Company follow:

	2013	2012	2011	2013	2012	2011
Loans and discounts	P1,952,600,390	P1,584,833,900	P1,268,846,150	P1,893,163,929	P1,545,250,809	P1,240,058,620
Customers' liabilities under acceptances and letters of credit/trust receipts	182,182,115	169,361,891	116,613,334	182,182,117	169,361,891	116,613,334
Unquoted debt securities	27,598,686	139,162,941	65,098,480	27,598,686	139,162,941	65,098,480
Finance lease receivables	20,371,249	14,289,234	17,011,638			
Loans and receivables financed	15,973,615	11,676,044	11,467,552			
Bills purchased	6,212,831	5,102,469	3,725,202	6,212,831	5,102,469	3,725,202
	P2,204,938,886	P1,924,431,479	P1,487,752,386	P2,109,157,563	P1,858,878,110	P1,429,495,636

As at December 31, 2013 and 2012, 72.2% and 88.23%, respectively, of the total loans and receivables were subjected to periodic interest repricing.

BSP Reporting

The following are the details of the loans and receivables reported by the Group and Parent Company to the BSP, based on their gross principal amounts:

As at December 31, 2013 and 2012, the details of the secured and unsecured loans and receivables, net of unearned discounts and unearned lease/finance income are as follows (in thousands except for percentages):

	2013	2012
	Amount	% Amount
Secured:		
Deposit hold-out and others	P7,166,176	16.18
Real estate	3,887,192	8.78
Chattel	1,091,368	2.46
	12,144,736	27.42
Unsecured	32,141,710	72.58
	P44,286,446	100.00

Parent Company

	2013	2012
	Amount	% Amount
Secured:		
Deposit hold-out and others	P6,889,217	15.87
Real estate	3,648,467	8.40
Chattel	882,469	2.03
	11,420,153	26.30
Unsecured	32,000,720	73.70
	P43,420,873	100.00

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

	2013	2012
	Amount	% Amount
Real estate, renting and business services	P15,302,345	34.55
Wholesale and retail trade	10,331,909	23.33
Manufacturing (Various industries)	6,120,819	13.82
Financial intermediaries	2,483,099	5.61
Public utilities	2,378,304	5.37
Agriculture, fisheries and forestry	852,962	1.93
Others	6,817,008	15.39
	P44,286,446	100.00

	Parent Company		
	2013	2012	
	Amount	%	Amount
Real estate, renting and business services	P15,163,870	34.92	P12,436,054
Wholesale and retail trade	10,134,016	23.34	5,813,096
Manufacturing (various industries)	6,094,662	14.04	6,584,134
Financial intermediaries	2,476,520	5.70	1,725,403
Public utilities	2,330,785	5.37	36,723
Agriculture, fisheries and forestry	744,716	1.72	256,994
Others	6,476,304	14.92	3,359,808
	P43,420,873	100.00	P30,212,212

The BSP considers that loan concentration exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio.

BSP Circular No. 351 allows the Group to exclude from nonperforming classification receivables classified as "Loss" in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued and that such receivables shall be deducted from the total receivable portfolio for purposes of computing nonperforming loans (NPLs). Subsequently, the BSP issued BSP Circular No. 772, which requires banks to compute their net NPLs by deducting the specific allowance for credit losses on the total loan portfolio from the gross NPLs. The specific allowance for credit losses shall not be deducted from the total loan portfolio in computing the net NPL ratio.

As at December 31, 2013 and 2012, the Parent Company's NPLs not fully covered by allowance for credit and impairment losses are as follows:

	2013	2012
Total NPLs	P1,073,013,698	P1,271,130,866
Less Specific allowance for credit losses	688,033,518	—
Less NPLs fully covered by allowance for credit losses	P384,980,180	730,283,988
		P540,846,878

As at December 31, 2013 and 2012, secured and unsecured NPLs follow:

	2013	2012
Unsecured	P660,778,667	P432,287,247
Secured	412,235,031	838,843,619
	P1,073,013,698	P1,271,130,866

10. Investments in Subsidiaries

This account consists of the Parent Company's investments and advances in the following subsidiaries:

	2013	2012
		(As restated)
Rural Bank of Angeles (96.05% owned)	P420,000,000	P420,000,000
Cavite United Rural Bank (100.00% owned)	156,036,034	156,036,034
Asia United Leasing and Finance Corporation (39.00% owned)	35,100,000	35,100,000
Asia United Forex Corporation (31.85% owned)	P611,136,034	P627,136,034

RBA

The Parent Company acquired 96.05% of the outstanding common shares of RBA on June 30, 2009 (see Note 34). Acquisition cost amounted to P420.00 million.

CURB

As of December 31, 2013 and 2012, investment in CURB consists of the following:

Subscription of capital stock (Note 36)	P40,000,000
Net equity adjustment on the transfer of net liabilities assumed from CCAV and conversion of the credit facility into equity interest (Note 36)	111,408,699
Additional investment from the Parent Company	4,627,335
	P156,036,034

AULFC

The P35.10 million represents the acquisition cost to AULFC. The Parent Company, through investment in AULFC, has indirect ownership on Asia United Fleet Management Services, Inc. (AUMFSI), AULFC's wholly-owned subsidiary. AUMFSI is engaged in the operating lease of vehicles.

AULFC

In 2013, the Parent Company received the various regulatory approvals for its dissolution. As a result of the dissolution, the Parent Company received cash consideration amounting to P28.40 million and recognized gain on the derecognition of investment included in 'Miscellaneous income' amounting to P12.26 million in the Parent Company's financial statements.

In the Group's consolidated financial statements, the dissolution resulted in the deconsolidation of AULFC, and accordingly, the Group derecognized the assets, liabilities, and non-controlling interests. Loss associated from the deconsolidation, attributable to the Parent Company, included in 'Miscellaneous expense', amounted to P0.15 million.

11. Property and equipment

The composition of and movements in the Group's property and equipment follow:

	Consolidated				
	2013				
Cost	Land and Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Equipment for Lease
Balance at January 1	P626,374,276	P591,601,068	P339,388,751	P207,367,757	P
Additions	6,004,835	263,215,683	234,221,801	79,333,998	351,276,786
Disposals		(17,274,190)	(9,529,598)	(27,670,366)	(2,401,786)
Balance at December 31	632,379,111	837,542,561	564,080,954	259,031,389	348,875,000
Accumulated Depreciation and Amortization					
Balance at January 1	83,630,380	436,744,471	214,521,604	90,394,549	825,291,004
Depreciation and amortization	31,320,545	105,094,113	54,605,283	42,440,387	27,413,318
Disposals		(9,633,837)	(4,459,792)	(22,964,821)	(200,148)
Balance at December 31	114,950,925	532,204,747	264,667,095	109,870,115	27,213,170
Net Book Value at December 31	P517,428,186	P305,337,814	P299,413,859	P149,161,274	P321,661,830
					P1,593,002,963

Consolidated
2012

	Land and Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost					
Balance at January 1	P598,620,443	P499,301,967	P272,230,163	P157,468,170	P1,527,620,743
Additions	19,291,524	97,002,741	67,001,970	69,238,873	252,535,108
Acquisition through business combination (Notes 35 and 36)	12,088,684	512,639	156,618	1,066,891	13,824,832
Disposals	(3,626,375)	(5,216,279)		(20,406,177)	(29,248,831)
Balance at December 31	626,374,276	591,601,068	339,388,751	207,367,757	1,764,731,852
Accumulated Depreciation and Amortization					
Balance at January 1	50,744,930	360,081,954	178,354,059	70,682,897	659,863,840
Depreciation and amortization	34,316,168	81,794,626	36,167,545	27,906,311	180,184,650
Disposals	(1,430,718)	(6,132,109)		(8,194,659)	(14,757,486)
Balance at December 31	83,630,380	435,744,471	214,521,604	90,394,549	825,291,004
Net Book Value at December 31	P542,743,896	P154,856,597	P124,867,147	P116,973,208	P939,440,848

The composition of and movements in the Parent Company's property and equipment follow:

Parent Company
2013

	Land and Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost					
Balance at January 1	P621,731,561	P583,953,865	P333,541,458	P206,535,918	P1,745,762,802
Additions	5,050,130	260,892,408	233,161,456	77,677,324	576,781,318
Disposals	(16,876,021)	(9,372,977)	(27,652,989)	(53,901,987)	(107,803,974)
Balance at December 31	626,781,691	827,970,252	557,329,937	256,560,253	2,268,642,133
Accumulated Depreciation and Amortization					
Balance at January 1	82,531,569	434,250,708	214,925,773	86,488,295	818,196,345
Depreciation and amortization	30,885,693	103,188,940	53,200,194	41,924,090	229,198,917
Disposals	(113,417,262)	(527,976,466)	(263,822,793)	(105,454,757)	(1,010,671,278)
Balance at December 31	P513,364,429	P299,993,786	P293,507,144	P151,105,496	P1,257,970,855

Parent Company
2012

	Land and Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost					
Balance at January 1	P594,900,228	P495,783,914	P269,668,020	P156,450,050	P1,516,802,212
Additions	18,369,024	93,386,230	63,873,438	68,992,983	244,621,575
Acquisitions through business combinations (Note 35)	12,088,684				12,088,684
Disposals	(3,626,375)	(5,216,279)		(18,907,115)	(27,749,769)
Balance at December 31	621,731,561	583,953,865	333,541,458	206,535,918	1,745,762,802
Accumulated Depreciation and Amortization					
Balance at January 1	50,180,264	359,031,740	179,533,193	69,804,553	658,549,750
Depreciation and amortization	33,782,023	80,425,555	35,392,580	27,676,789	177,276,947
Disposals	(1,430,718)	(5,206,587)		(10,993,047)	(17,630,352)
Balance at December 31	82,531,569	434,250,708	214,925,773	86,488,295	818,196,345
Net Book Value at December 31	P539,199,992	P149,703,157	P118,615,685	P120,047,623	P927,566,457

Gain (loss) on sale of property and equipment amounting to (P0.37 million). P3.32 million and P2.61 million for the Group and (P0.68 million), P3.15 million and P2.61 million for the Parent Company in 2013, 2012 and 2011, respectively, is included under 'Miscellaneous income' in the statements of income.

As at December 31, 2013 and 2012, the costs of fully depreciated property and equipment still in use by the Group amounted to P444.7 million and P442.58 million, respectively, and by the Parent Company amounted to P441.2 million and P435.42 million, respectively.

Rental income on the lease of equipment included in under 'Miscellaneous income' amounted to P33.99 million in 2013.

12. Investment Properties

The components of and movements in this account follow:

	Land	Buildings and Improvements	Total
Cost			
Balance at January 1	P1,162,444,508	P331,812,595	P1,494,257,103
Additions	58,962,536	24,222,364	83,184,900
Disposals	(331,763,612)	(19,568,727)	(351,332,339)
Balance at December 31	889,643,432	336,466,232	1,226,109,664
Accumulated Depreciation and Amortization			
Balance at January 1	-	37,890,380	37,890,380
Depreciation and amortization	-	43,821,205	43,821,205
Disposals	-	(4,945,290)	(4,945,290)
Balance at December 31	-	76,766,295	76,766,295
Allowance for Impairment Losses			
(Note 16)	13,074,007	248,963	13,322,970
Net Book Value at December 31	P876,569,425	P259,450,974	P1,136,020,399

The Group's and Parent Company's investment properties consist entirely of real estate properties and improvements thereon acquired in settlement of loans and receivables. The difference between the fair value of the investment property upon foreclosure and the carrying value of the loan is recognized under 'Miscellaneous income' in the statements of income. In 2013, 2012 and 2011, gain on asset foreclosures and loan transactions amounted to P23.70 million, P2.51 million and P11.65 million, respectively, for the Group and P6.54 million, P0.10 million and P2.16 million, respectively, for the Parent Company.

The fair value of the investment properties has been determined based on valuations made by accredited and/or in-house appraisers on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. As at December 31, 2013 and 2012, the aggregate fair value of the investment properties of the Parent Company amounted to P1.50 billion and P1.71 billion, respectively.

Gain (loss) on sale of investment properties amounting to P306.39 million P22.24 million and P3.24 million in 2013, 2012 and 2011, respectively, for the Group and P303.94 million, P19.40 million and P1.23 million in 2013, 2012 and 2011, respectively, for the Parent Company is included under 'Miscellaneous income' in the statements of income.

In 2013, 2012 and 2011, rental income earned from investment properties leased out under operating leases, recorded under 'Miscellaneous income' in the statements of income, amounted to P21.24 million, P20.83 million and P18.58 million, respectively, for the Group and P21.16 million, P20.09 million and P17.35 million, respectively, for the Parent Company.

Direct operating expenses, consisting of depreciation and repairs and maintenance in 2013, 2012, and 2011, on the foregoing properties amounted to P6.00 million, P4.65 million and P2.33 million, respectively, for the Group, and P6.00 million, P4.59 million and P2.29 million, respectively, for the Parent Company. Direct operating expenses on the investment properties not generating rental income in 2013, 2012, and 2011 amounted to P59.3 million, P28.02 million and P11.34 million, respectively, for the Group and P59.4 million, P26.93 million and P10.55 million, respectively, for the Parent Company.

13. Goodwill

This account represents goodwill from the acquisition of the following:

	Consolidated		Parent Company	
	2013	2012 (As restated- Note 35)	2013	2012 (As restated- Note 35)
Asiatrust Development Bank (Note 35)	P1,577,081,276	P1,577,081,276	P1,577,081,276	P1,577,081,276
Rural Bank of Angeles (Note 34)	306,452,696	306,452,696		
	P1,883,533,972	P1,883,533,972	P1,577,081,276	P1,577,081,276

Goodwill of the Parent Company represents the excess of the acquisition cost over fair value of the identifiable assets and liabilities of ATB. In addition to goodwill from ATB acquisition, the goodwill of the Group includes goodwill from the acquisition of RBA. The goodwill from both acquisitions can be attributed to factors such as increase in geographical presence and customer base due to branches acquired. As such, the Parent Company's Branch Banking Group (BBG) had been identified as the cash generating unit (CGU) for impairment testing of the goodwill.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment testing is done by comparing the recoverable amount of each CGU (i.e., the higher between the fair value less cost to sell and value in use) with its carrying amount. The goodwill impairment test in 2013 did not result in an impairment loss of goodwill of the Group's CGU as the recoverable amount for the CGU was higher than the carrying amount.

Key assumptions used in value-in-use calculation

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections from financial budgets and the Parent Company's strategic plan covering a five-year period, which is ultimately approved by senior management. Future cash flows and growth rates were determined based on past experience and strategies developed. A long-term growth rate of 3.00% has been determined by the management.

The calculation of value-in-use of the CGU is most sensitive to interest margin, discount rate, market share during the budget period and steady growth rate used to extrapolate the cash flow projections beyond the budget period.

	Consolidated		
	2012 (As restated)	Buildings and Improvements	Total
Cost			
Balance at January 1	P711,036,561	P49,001,780	P760,038,341
Additions	25,497,121	12,628,981	38,026,102
Acquisition through business combination (Notes 35 and 36)	518,360,543	282,567,779	800,928,322
Disposals	(92,449,717)	(12,285,945)	(104,735,662)
Balance at December 31	1,162,444,508	331,812,595	1,494,257,103
Accumulated Depreciation and Amortization			
Balance at January 1	24,975,491	24,975,491	24,975,491
Depreciation and amortization	13,974,374	13,974,374	13,974,374
Disposals	(1,060,085)	(1,060,085)	(1,060,085)
Balance at December 31	37,890,380	37,890,380	37,890,380
Allowance for Impairment Losses (Note 16)			
Balance at December 31	35,570,483	35,570,483	35,570,483
Net Book Value at December 31	P1,162,444,508	P258,351,732	P1,420,796,240

	Parent Company		
	2013	Buildings and Improvements	Total
Cost			
Balance at January 1	P1,085,167,672	P324,676,585	P1,409,844,257
Additions	20,448,594	17,438,059	37,886,653
Disposals	(315,935,908)	(18,262,168)	(334,198,076)
Balance at December 31	789,680,358	323,852,476	1,113,532,834
Accumulated Depreciation and Amortization			
Balance at January 1	—	36,173,967	36,173,967
Depreciation and amortization	—	42,808,167	42,808,167
Disposals	—	(4,316,320)	(4,316,320)
Balance at December 31	—	74,665,814	74,665,814
Allowance for Impairment Losses (Note 16)			
Balance at December 31	2,434,601	—	2,434,601
Net Book Value at December 31	P787,245,757	P249,186,662	P1,036,432,419

	Parent Company		
	2012 (As restated)	Buildings and Improvements	Total
Cost			
Balance at January 1	P665,875,727	P45,577,365	P711,453,092
Additions	6,839,529	11,361,681	18,201,210
Acquisition through business combination (Note 35)	495,921,463	279,081,546	775,003,009
Disposals	(83,469,047)	(11,344,007)	(94,813,054)
Balance at December 31	1,085,167,672	324,676,585	1,409,844,257
Accumulated Depreciation and Amortization			
Balance at January 1	—	23,203,518	23,203,518
Depreciation and amortization	—	13,433,160	13,433,160
Disposals	—	(462,711)	(462,711)
Balance at December 31	—	36,173,967	36,173,967
Allowance for Impairment Losses (Note 16)			
Balance at December 31	18,068,640	5,213,101	23,281,741
Net Book Value at December 31	P1,067,099,032	P283,289,517	P1,350,388,549

Discount rate

The discount rate applied has been determined based on the average cost of capital. The discount rate used is 9.60% and 10.00% in 2013 and 2012, respectively.

Sensitivity to changes in assumptions

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

14. Intangible Assets

Intangible assets consist of:

	Consolidated	2012	2013	Parent	2012	2013
Branch licenses	P1,494,450,005	P1,478,963,337	P1,493,650,005	P1,478,163,337		
Software costs - net	28,783,931	21,776,355	27,136,122	20,036,000		
	P1,523,233,936	P1,500,739,692	P1,520,786,127	P1,498,199,337		

Additions to branch licenses include those recognized from the acquisition of ATB and CCAV in 2012 amounting to P960.00 million and P460.00 million, respectively (see Notes 35 and 36).

The movements in software costs of the Group and the Parent Company follow:

	Consolidated	2012	2013	Parent Company	2012	2013
Cost						
Balance at January 1	P112,922,704	P92,957,079	P109,397,404	P91,369,379		
Additions	19,680,741	19,965,625	19,284,791	18,028,025		
Write-off	(42,000)		(42,000)			
Balance at December 31	132,561,445	112,922,704	126,640,195	109,397,404		
Accumulated Depreciation and Amortization						
Balance at January 1	91,146,349	82,591,921	89,361,404	81,703,441		
Amortization	12,630,745	8,554,428	12,142,249	7,657,963		
Reclassification	420		420			
Balance at December 31	103,777,514	91,146,349	101,504,073	89,361,404		
Net Book Value at December 31	P28,783,931	P21,776,355	P27,136,122	P20,036,000		

15. Other Assets

Other assets consist of:

	Consolidated	2012	2013	Parent Company	2012	2013
Advances to CBP	P201,711,934	P	P	P		
Advances to RBA			200,000,000			
Prepaid expenses	59,083,360	27,722,057	54,308,420	25,627,460		
Miscellaneous assets	131,320,518	52,928,658	97,461,688	58,799,996		
	P392,115,812	P80,650,715	P351,770,108	P84,427,456		

In 2013, the Parent Company extended a credit facility amounting to P200.00 million to RBA in connection with the acquisition of Cooperative Bank of Pampanga (CBP). P200.00 million advances will be converted to the Parent Company's equity interest in RBA, upon completion of the acquisition of CBP in 2014 (see Note 37).

Advances to CBP represents cash assistance provided by RBA, that is financed through the credit facility extended by the Parent Company to RBA.

Miscellaneous assets consist mainly of input VAT, suspense accounts, unissued stationery and supplies and rental deposits. It also includes chattels and other repossessed assets held by the Group amounting to P3.72 million and P3.08 million, and by the Parent Company amounting to P1.63 million and P2.63 million as of December 31, 2013 and 2012, respectively.

16. Allowance for Credit and Impairment Losses

Changes in the allowance for credit and impairment losses follow:

	Consolidated	2012	2013	Parent Company	2012	2013
Balances at beginning of year						
Loans and discounts	P435,475,762	P553,841,253	P435,475,762	P553,841,253		
Corporate lending	199,819,565	373,610,500	148,132,973	322,343,909		
Consumer lending	635,235,327	927,351,753	583,608,755	876,185,162		
Finance lease receivables	9,867,143	2,602,699				
Loans and receivables financed	4,372,936	4,372,936	4,372,936	4,372,936		
Customers' liabilities on bills under letters of credit/trust receipts	286,194,740	545,697,309	286,194,740	545,697,309		
Unquoted debt securities	866,895	866,895				
Accrued interest receivable	115,021,799	110,562,599	11,225,893	10,709,265		
Accounts receivable	1,060,887,638	1,603,071,787	885,502,304	1,435,964,672		
AFS investments	22,001,719	463,083,842	22,001,719	463,083,842		
Investment properties	35,570,483	42,751,183	23,281,741	30,800,936		
	1,118,459,840	2,108,906,812	930,785,764	1,930,849,450		
Provision for credit and impairment losses	310,925,992	425,468,974	296,205,648	412,496,810		
Disposal	(22,247,513)		(20,847,140)			
Write-offs	25,128,593	(1,339,926,773)	27,877,244	(1,339,926,773)		
Others*	313,807,072	(990,446,972)	303,235,752	(72,633,723)		
Balances at end of year						
Loans and discounts	555,992,538	435,475,762	555,992,538	435,475,762		
Corporate lending	259,859,960	199,819,565	202,659,980	148,132,973		
Consumer lending	815,852,498	635,235,327	758,652,518	563,808,735		
Finance lease receivables	11,610,975	9,867,143				
Loans and receivables financed	12,732,442	9,248,798				
Customers' liabilities on bills under letters of credit/trust receipts	57,732,922	4,372,936	57,732,922	4,372,936		
Unquoted debt securities	379,362,078	286,194,740	379,362,078	286,194,740		
Accrued interest receivable	866,895	866,895				
Accounts receivable	116,951,580	1,502,179	12,044,845	11,325,893		
	1,395,149,390	1,060,887,638	1,207,792,363	885,502,304		
AFS investments	P23,794,552	22,001,719	P23,794,552	22,001,719		
Investment properties (Note 12)	13,322,970	35,570,483	2,434,601	23,281,741		
	P1,432,266,912	1,118,459,840	P1,234,021,516	930,785,764		

*Others pertain to foreign exchange differences and interest accretion on impaired loans.

Breakdown of the allowance for credit and impairment losses provided to loans and receivable follow:

	Consolidated	2012	2013	Parent Company	2012	2013
Specifically impaired	P661,187,633	P434,225,131	P580,187,598	P303,347,314		
Collectively impaired	733,961,757	626,662,507	627,604,765	582,154,990		
	P1,395,149,390	P1,060,887,638	P1,207,792,363	P885,502,304		
Gross amount of loans and receivables individually determined to be impaired before deducting any individually assessed impairment losses						
	P2,115,598,216	P1,944,680,154	P1,926,587,257	P1,540,811,048		

In 2012, write offs represent writedown on the carrying values of structured notes and loans.

As discussed in Note 9, in 2013, the Parent Company wrote off ATB loans with face value of P697.78 million and fair value of nil at the date of business combination. No separate valuation allowance was recognized by the Parent Company on these loans and receivables.

Below is the breakdown of provision for credit and impairment losses:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Loans and discounts				
Corporate lending	P120,942,101	P158,377,804	P120,942,101	P158,377,804
Consumer lending	60,040,395	12,303,863	54,527,007	P111,324,921
		83,199,587		45,650,141
Finance lease receivables	180,982,496	170,681,667	175,469,108	170,161,568
Loans and receivables financed	1,723,832	3,454,803		(65,674,780)
Customers' liabilities under	3,483,644	6,695,011		
acceptances and letters of		6,920,146		
credit/trust receipts	53,359,986		53,359,986	
Unquoted debt securities	67,376,554	20,604,757	67,376,554	20,604,757
Accrued interest receivable				260,889,554
Accounts receivable	3,999,480	1,714,374		
AFS investments	310,925,992	203,150,612	296,205,648	190,766,425
Investment properties		221,730,385		195,214,774
		587,977		185,528,410
	P310,925,992	P425,468,974	P296,205,648	P412,496,810
				P380,743,184
Loans and receivables				
Individual impairment	P189,100,098	183,865,941	P507,909,921	P178,982,561
Collective impairment	121,825,904	19,284,671	182,392,622	P240,100,221
		(268,225,555)		(44,895,447)
	310,925,992	203,150,612	296,205,648	190,766,425
AFS investments		221,730,385		195,214,774
Investment properties		587,977		185,528,410
	P310,925,992	P425,468,974	P296,205,648	P412,496,810
				P380,743,184

At the current level of allowance for impairment and credit losses, management believes that the Group has sufficient allowance to cover any losses that may be incurred from the non-collection or non-realization of its loans and receivables and other risk assets.

17. Deposit Liabilities

As at December 31, 2013 and 2012, 44.33% and 48.59% respectively, of the total deposit liabilities of the Parent Company are subject to periodic interest repricing. In 2013, 2012 and 2011, peso and foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.00% to 0.13%.

Interest expense on deposit liabilities consists of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Savings	P439,736,010	P519,234,715	P438,898,010	P518,247,762
Time	256,628,262	236,315,892	240,699,321	224,578,105
Demand	38,565,120	29,140,354	38,496,171	29,085,778
	P734,929,392	P784,690,961	P718,093,502	P777,911,645
				P701,278,461

Per BSP Circular no. 753 effective April 6, 2012, deposit liabilities under local currency of the Parent Company shall be subject to the unified statutory/legal and liquidity reserve requirement of 18%. This shall supersede the statutory reserve requirement of 10% and liquidity requirement of 11%. The Parent Company's existing cash in vault shall no longer be eligible as compliance with the reserve requirement. The Parent Company is in compliance with such regulations as at December 31, 2013 and 2012.

As of December 31, 2013 and 2012, the total liquidity and statutory reserves, as reported to BSP, consist of Due from BSP amounting to P11.39 billion and P6.89 billion, respectively.

18. Bills Payable

This account consists of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Foreign banks	P7,589,288,806	P1,548,984,027	P7,589,288,806	P1,548,984,027
PDIC (Note 35)	610,504,019	568,373,982	610,504,019	568,373,982
BSP		32,655,275		32,655,275
Others	704,171,420	324,332,534		—
	P8,903,964,245	2,474,345,818	P8,199,792,825	P2,150,013,284

Interbank borrowings are subject to annual fixed interest rates ranging from 0.38% to 1.83% and from 0.21% to 1.80% in 2013 and 2012, respectively, for both the Group and the Parent Company.

As at December 31, 2013 and 2012, bills payable to the PDIC pertains to the loan to the Parent Company as an incentive for acquiring ATB (see Note 35). Interest expense accretion amounted to P48.52 million in 2013.

As at December 31, 2012, bills payable to BSP and others amounting to P32.66 million, is secured by loans and receivables with carrying value of the same amount (see Note 9).

Others represents unsecured peso borrowings from local banks and individuals with annual interest rate of 2.50% to 4.50%, 3.50% to 4.50% and 4.00% in 2013, 2012 and 2011, respectively.

19. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Accrued interest payable	P94,692,840	P69,707,615	P93,687,167	P68,301,044
Accrued taxes and licenses	35,376,768	16,195,117	34,942,692	12,608,231
Accrued other expenses	277,584,693	242,443,695	267,492,448	231,262,320
	P407,654,301	P328,346,427	P396,122,307	P312,171,595

Accrued other expenses include accruals for rent, training expenses, repairs and maintenance, membership fees and dues, professional fees and insurance.

20. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
	(As restated Note 2)	(As restated Note 2)	(As restated Note 2)	(As restated Note 2)
Accounts payable	P740,416,379	P515,753,103	P719,154,660	P513,000,021
Unearned income (Note 34)	666,495,981	735,768,961	666,495,981	735,768,961
Bills purchased - contra (Note 9)	396,022,737	708,284,403	396,022,737	708,284,403
Acceptances payable (Note 9)	362,762,010	542,388,957	362,762,010	542,388,957
Retirement liability (Notes 2 and 24)	205,481,384	198,909,650	205,481,384	198,909,650
Deposit on lease contracts	91,183,133	40,360,266		123,968,477
Withholding taxes payable	27,485,147	19,333,319	27,986,960	18,711,386
Payment orders payable	16,939,067	241,131,028	16,939,067	241,131,028
Margin deposits	7,882,397	8,024,918	7,882,397	8,024,918
Miscellaneous	86,595,382	40,920,937	37,843,411	3,025,857
	P2,601,174,117	P3,061,768,603	P2,440,368,547	P2,968,838,182
				P1,509,148,943

Unearned income represents the difference of the fair value and the related proceeds of the loan from PDIC related to ATB acquisition. Interest income, representing the amortization of unearned income and included in 'Others' in the statement of comprehensive income, amounted to P48.52 million in 2013.

Miscellaneous liabilities of the Group is comprised mainly of the Parent Company's collections in favor of SSS and HDMF that are remitted by the Parent Company to the respective agencies on a bi-monthly basis, and advances of AULFC from certain individual shareholders (see Note 29).

21. Maturity Profile of Assets and Liabilities

The following tables present the assets and liabilities by contractual maturity and settlement dates as at December 31, 2013 and 2012 (in thousands):

	Consolidated		
	Due within one year	Due beyond one year	Total
Financial Assets	P	P	P
Cash and other cash items	2,240,332	1,729,912	3,970,244
Due from BSP	18,800,513	9,493,667	28,294,180
Due from other banks	1,223,632	1,568,089	2,791,721
IBLR and SPURA	74,570	6,695	81,265
Financial assets at FVPL	3,804,702	35,904	3,840,606
AFS investments - gross	22,968,005	10,509,991	33,477,996
Loans and receivables - gross	30,524,523	25,639,533	56,164,056
Other Assets	1,481	3,569	5,050
Nonfinancial Assets	79,637,758	20,169,933	99,807,691
Property and equipment	2,293,034	1,764,732	4,057,766
Investment properties	1,226,110	1,494,257	2,720,367
Deferred tax assets	251,850	280,248	532,098
Goodwill	1,893,634	1,893,633	3,787,267
Intangible assets	1,627,011	1,591,886	3,218,897
Other assets	260	80,651	1,067
	260	8,018,700	8,018,960
	79,638,018	28,188,633	107,826,651
Allowance for credit and impairment losses			
Unearned discounts and unearned lease/finance income			
Accumulated depreciation and amortization			
			1,432,267
			119,001
			1,229,450
			2,780,718
			P105,045,933
			P64,998,349
			954,237
			2,775,334
			P64,998,349
Financial Liabilities	P	P	P
Deposit liabilities	37,552,010	36,382,266	73,934,276
Bills payable	4,727,193	4,176,771	8,903,964
Manager's checks	541,148	190,299	731,447
Accrued interest and other expenses	376,932	69,708	446,640
Derivative liabilities	597,231	29,780	627,011
Other liabilities	2,482,467	2,201,292	4,683,759
	46,276,581	40,644,272	86,920,853
Nonfinancial Liabilities	2,904	3,308	6,212
Income tax payable			
Deferred tax liability			
Accrued taxes and other liabilities			
	64,195	258,639	322,834
	P46,344,080	P40,649,642	P86,993,722
			P50,012,376
			P3,409,380
			P53,421,756

Parent Company

	2013		2012	
	Due within one year	Due beyond one year	Due within one year	Due beyond one year
Financial Assets	P	P	P	P
Cash and other cash items	2,234,671	1,726,097	3,960,768	9,484,241
Due from BSP	18,788,998	9,484,241	28,273,239	1,435,768
Due from other banks	1,171,852	1,435,768	2,607,620	6,695
IBLR and SPURA	74,570	6,695	81,265	1,170,795
Financial assets at FVPL	3,804,702	35,904	3,840,606	10,517,245
AFS investments - gross	22,968,005	10,509,991	33,477,996	10,216,454
Loans and receivables - gross	29,835,256	25,639,533	55,474,789	8,717,104
Other Assets	1,481	3,569	5,050	34,422,729
Nonfinancial Assets	78,878,054	19,357,945	98,235,999	20,104,353
Property and equipment	2,268,642	1,745,763	4,014,409	1,745,763
Investment properties	1,113,533	1,409,844	2,523,377	1,409,844
Deferred tax assets	250,152	277,974	528,126	627,136
Investments in subsidiaries	611,136	627,136	1,238,272	1,587,561
Intangible assets	1,622,290	1,587,561	3,209,851	1,577,081
Goodwill	1,577,081	1,577,081	3,154,162	84,427
Other assets	351,770	84,427	436,197	7,309,786
	P78,878,054	7,794,604	106,672,658	P27,414,139
Allowance for credit and impairment losses				
Unearned discounts and unearned lease/finance income				
Accumulated depreciation and amortization				
			1,234,022	930,786
			74,101	177,582
			1,186,841	943,732
			2,494,964	2,052,100
			P103,535,639	P64,057,160

Parent Company

	2013		2012	
	Due within one year	Due beyond one year	Due within one year	Due beyond one year
Financial Liabilities	P	P	P	P
Deposit liabilities	37,257,267	36,192,329	73,449,596	23,331,553
Bills payable	4,023,022	4,176,771	8,199,793	1,548,984
Manager's checks	541,148	190,299	731,447	190,299
Accrued interest and other expenses	361,180	361,180	722,311	251,430
Derivative liabilities	597,231	597,231	627,011	58,837
Other liabilities	2,412,383	2,412,383	4,683,759	2,998,261
	45,192,231	40,369,100	85,561,331	24,909,595
Nonfinancial Liabilities	62,929	62,929	62,929	766
Income tax payable				
Deferred tax liability				
Accrued taxes and other liabilities				
	P45,255,160	P40,369,100	P85,624,260	P24,909,595
			P27,440,819	P52,650,414

22. Equity

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares		Amount	
	2013	2012	2013	2012
Common				
Authorized:				
2013 - P100.00 par value				
2012 - P100.00 par value				
Issued and Outstanding				
Balance at the beginning of the year			500,000,000	P5,000,000,000
Increase due to stock split			24,000,000	P2,400,000,000
Issued during the year			216,000,000	P21,600,000,000
			83,540,360	835,403,600
			323,540,360	P3,235,403,600
			24,000,000	P2,400,000,000

On February 22, 2013, the Board of Directors of the Parent Company and the stockholders representing more than 2/3 of the outstanding capital stock of the Parent Company approved a 10:1 stock split, wherein each common share of the Parent Company with a par value of ₱100.00 shall be replaced with ten (10) shares with a par value of ₱10.00. As a result, the number of authorized common shares of the Parent Company increased from 50,000,000 common shares of with a par value of ₱100.00 per share to 500,000,000 common shares with a par value of ₱10.00 per share. Consequently, the Parent Company's issued and outstanding shares increased from 24,000,000 common shares with a par value of ₱100.00 per share, to 240,000,000 shares with par value of ₱10.00 per share. The BSP granted the Certificate of Authority to the Parent Company to implement the increase in the number of authorized common shares and corresponding reduction of par value of the capital stock on March 6, 2013. On March 20, 2013, the SEC approved the stock split.

Also on February 22, 2013, the BOD of the Parent Company and the stockholders representing more than 2/3 of the outstanding capital stock approved the offering of the Parent Company to offer and sell up to 102,857,140 common shares with a par value of ₱10.00 per share from the unissued and authorized capital stock. The Parent Company filed its registration statement covering the initial public offering of common shares with the Philippines Securities and Exchange Commission on February 28, 2013. An Application for Listing of the Parent Company's Stocks was subsequently received by the Philippine Stock Exchange on March 1, 2013.

On May 6, 2013, the Parent Company obtained approval by SEC the permit to offer its common shares for sale through initial public offering (IPO).

The net proceeds from the IPO amounted to ₱7.46 billion, net of direct costs related to equity issuance of ₱0.48 billion. Total issued capital stock from the public offer amounted to ₱0.84 billion, while the resulting additional paid-in capital amounted to ₱6.62 billion. The Parent Company's shares were listed and commenced trading at the PSE on May 17, 2013.

Capital management

The primary objective of the Group's capital management is to ensure that the Parent Company complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

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

The process and policies guiding the determination of the sufficiency of capital for the Group relative to its business risks are the same methodology that will be incorporated into the Group's ICAAP in compliance with the requirements of the BSP for its adoption as discussed in Note 4.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company'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.

Under current banking regulations, the combined capital accounts of each commercial bank should not be less than an amount equal to ten percent (10.00%) of its risk assets. Risks 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 Monetary Board.

Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio is to be inclusive of a market risk charge. In August 2006, the BSP issued Circular No. 538 which contains the implementing guidelines for the revised risk-based capital adequacy framework to conform to Basel II recommendations. Under the revised framework, capital requirements for operational risk, credit derivatives and securitization exposures are to be included in the calculation of the Bank's capital adequacy. The revised framework also prescribes a more granular mapping of external credit ratings to the capital requirements and recognizes more type of financial collateral and guarantees a credit risk mitigants. Changes in the credit risk weights of various assets, such as foreign currency denominated exposures to the Philippine national government, non-performing exposures and ROPA, were also made. Exposures are required to be risk-weighted based on third party credit assessment of the individual exposure given by eligible external credit assessment institutions. The new guidelines took effect on July 1, 2007.

Capital Adequacy Ratio (CAR)

The capital adequacy ratio (CAR) of the Group and Parent Company, as reported to the BSP, as at December 31, 2013 and 2012 are shown in the table below:

	Consolidated		Parent Company	
	2013	2012	2013	2012
	(in millions)			
Tier 1 capital	₱19,038	₱9,976	₱19,232	₱10,326
Tier 2 capital	462	282	456	278
Total regulatory capital	19,500	10,258	19,688	10,604
Less required deductions			611	932
Total qualifying capital	19,500	₱10,258	19,077	9,672
Risk weighted assets	106,103	₱66,673	104,304	65,344

Capital ratios

Total regulatory capital expressed as percentage of total risk weighted assets	18.38%	15.39%	18.29%	14.80%
Total tier 1 expressed as percentage of total risk weighted assets	17.94%	14.96%	18.15%	14.80%

As at December 31, 2013 and 2012, the Group and the Parent Company were in compliance with the minimum CAR.

Regulatory Developments

On January 15, 2013, BSP issued Circular No. 781 for the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for the Philippine banking system in accordance with the Basel III standards.

These guidelines apply to all Universal Banks (UBs) and Commercial Banks (CBs), as well as their subsidiary banks and QBs. The risk-based capital ratio of a bank, expressed as a percentage of a qualifying capital to risk weighted assets, shall not be less than ten percent (10%) for both solo basis (head office plus branches) and consolidated basis (parent bank plus subsidiary financial allied undertakings, but excluding insurance companies). Other minimum capital ratios include Common Equity Tier 1 and Tier 2 capital ratios of 6.00% and 7.50%, respectively. A capital conservation buffer of 2.50%, comprised of CET1 capital, shall likewise be imposed. This circular will be effective beginning on January 1, 2014.

The Group has taken into consideration the impact of this new circular to ensure compliance with the regulatory requirements and capital ratios.

23. Leases

As Lessee

The Group and Parent Company leases the premises of most of its branches, as well as those of its subsidiaries. The lease periods range from 3 to 15 years, renewable upon mutual agreement of the parties. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.00%. In 2013, 2012 and 2011, rent expense recognized in the statements of income amounted to ₱181.06 million, ₱131.59 million and ₱101.14 million, respectively, for the Group and ₱175.27 million, ₱127.48 million and ₱98.16 million, respectively, for the Parent Company.

As at December 31, 2013 and 2012, the future minimum rentals payable by the Group and Parent Company (in millions) are as follows:

	2013	2012
Within one year	₱165	₱130
After one year but not more than five years	432	385
More than 5 years	175	175
	₱772	₱690

As Lessor

Asia United Fleet Management Services, Inc., a wholly-owned subsidiary of AULFC, is involved in the operating lease of automobiles, with lease terms of maximum of three (3) years. Operating lease income included under 'Miscellaneous income' amounted to P33.99 million in 2013.

As at December 31, 2013, the future minimum rental receivable of the Group (in millions) are as follows:

Within one year	P61
After one year but not more than five years	144
	P205

24. Retirement Plan

The Parent Company formalized its retirement plan in July 2010 covering substantially all its officers and regular employees, including key management personnel of the subsidiaries and affiliates. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The latest actuarial valuation studies of the retirement plan, performed by an independent third party, were made as at December 31, 2013.

The Company's retirement plan is a non-contributory defined benefit plan with a single lump sum payment covering retirement and ancillary benefits based on Republic Act 7641.

The Parent Company's annual contribution to the retirement plan consists of a payment covering the current service cost, amortization of the unfunded actuarial accrued liability and interest on such unfunded actuarial liability. The Trust and Investments Group of the Parent Company performs trust functions and holds the assets of the retirement fund.

As at December 31, 2013, the subsidiaries and affiliates have no formal retirement plan for its employees.

The following table shows the actuarial assumptions as at December 31, 2013 and 2012, and January 1, 2012 used in determining the retirement benefit obligation of the Parent Company:

	December 31, 2013	December 31, 2012	January 1, 2012
Discount rate	6.00%	(As restated - 6.10%)	(As restated - 7.00%)
Salary rate increase	8.00%	8.00%	8.00%
Estimated working lives	11	11	11

The amounts of retirement liability recognized in the statements of condition (included under 'Other liabilities') follow (see Note 20):

	December 31, 2013	December 31, 2012	January 1, 2012
	(As restated - Note 2)	(As restated - Note 2)	(As restated - Note 2)
Present value of defined benefit obligation	P365,912,996	P313,515,363	P174,874,924
Fair value of plan assets	(160,431,612)	(114,612,713)	(50,906,447)
Retirement liability	P205,481,384	P198,902,650	P123,968,477

Changes in the present value of the defined benefit obligation of the Parent Company are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
	(As restated - Note 2)	(As restated - Note 2)	(As restated - Note 2)
Balance at beginning of year	P313,515,363	P174,874,924	P77,427,953
Current service cost	42,582,914	24,676,866	11,288,765
Interest cost	19,124,437	12,241,245	7,665,367
Benefits paid	(23,400,470)	(9,013,510)	(3,547,765)
Re-measurement (gains) losses:			
Experience adjustments	99,979,097	73,439,460	25,631,568
Actuarial losses arising from changes in demographic assumptions	(94,190,871)	37,296,378	56,409,036
Actuarial losses arising from changes in financial assumptions	8,302,526		
Balance at end of year	P365,912,996	P313,515,363	P174,874,924

Changes in the fair value of the plan assets of the Parent Company are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
	(As restated - Note 2)	(As restated - Note 2)	(As restated - Note 2)
Balance at beginning of year	P114,612,713	P50,906,447	P48,243,400
Contributions	42,500,000	58,100,000	
Interest income	6,991,375	3,563,451	4,776,097
Return on plan assets excluding amount in net interest income	(3,672,476)	2,042,815	(211,050)
Balance at end of year	P160,431,612	P114,612,713	P50,906,447

The amounts pertaining to the Parent Company that is included under 'Compensation and Fringe Benefits' in the statements of income are as follows:

	2013	2012	2011
	(As restated - Note 2)	(As restated - Note 2)	(As restated - Note 2)
Current service cost	P42,582,914	P24,676,866	P11,288,765
Net interest cost	12,133,062	8,677,794	2,889,271
	P54,715,976	P33,354,660	P14,178,036

The amounts of defined benefit cost of the Parent Company which is included in other comprehensive income related to remeasurements of retirement plan follow:

	2013	2012	2011
	(As restated - Note 2)	(As restated - Note 2)	(As restated - Note 2)
Actuarial gains (losses) on present value of retirement obligation	(P14,090,752)	(P110,735,838)	(P82,040,604)
Return on plan assets excluding amount in net interest income	(3,672,476)	2,042,815	(211,050)
	(17,763,228)	(108,693,023)	(84,153,654)
Income tax effect	(5,328,968)	(32,607,907)	(25,245,096)
	(P12,434,260)	(P16,085,116)	(P89,907,558)

The fair values of plan assets of the Parent Company by each class as at the end of the reporting periods are as follow:

	December 30, 2013	December 31, 2012 (As restated)	January 1, 2012 (As restated)
Cash and cash equivalents	P70,379,172	P 58,354,974	P27,809,155
Debt Instruments			
Private Securities	17,002,796	24,111,470	10,352,035
Government Securities	11,828,379	9,888,777	3,354,247
Equity Instruments			
Holding	29,786,090	3,345,500	1,785,300
Power	15,163,400	12,513,520	4,379,960
Financial institutions	6,483,850	1,189,762	590,000
Real estate	6,425,800	1,206,000	924,900
Telecommunications	2,666,000	3,222,500	1,398,100
Food and Beverage	565,500	408,000	
Mining	388,080	404,460	312,750
Accrued Trust Fees	(323,762)	(96,808)	
Others	66,307	94,558	
	P160,431,612	P114,612,713	P50,906,447

Cash and cash equivalents include cash in special deposit accounts, special savings deposit, and time deposit accounts. Investments in debt instruments under private securities consist of investment in commercial papers, installment receivables, and loans and receivables while the investments in debt instruments under government securities pertain to investments in retail treasury bonds. Equity instruments consist of shares traded in the local stock exchange.

All equity and debt instruments held have quoted prices in active market. The remaining plan assets are carried at their carrying amounts since the carrying amounts approximate the fair values.

The plan assets have diverse investments and do not have any concentration risk.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the present value of the defined benefit obligation (PBO) as of the end of the reporting period, assuming if all other assumptions were held constant:

	Increase (Decrease) in PBO	
	2013	2012
Discount rates	+ 100bps (P51,966,507)	(P41,024,298)
	- 100bps 64,384,704	50,800,837
Future salary increases	+ 100bps 62,417,280	49,300,399
	- 100bps (51,529,430)	(40,713,686)
Turnover rate	0%	110,144,593

25. Service Charges, Fees and Commissions

This account consists of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Service charges	P246,683,245	P199,569,872	P233,283,626	P194,501,764
Commissions	147,287,680	128,898,919	147,287,680	128,898,919
Fees	108,190,314	34,189,837	108,190,314	34,169,402
	P502,161,239	P362,658,628	P488,761,620	P357,570,085

26. Miscellaneous Expenses

This account consists of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Stationery and supplies used	P43,370,551	P29,199,457	P41,496,185	P27,317,157
Advertising and publicity	36,043,090	28,682,155	35,789,597	28,603,226
Entertainment, amusement and recreation (Note 27)	28,195,938	16,890,296	24,980,739	14,472,551
Fuel and lubricants	27,756,087	20,274,238	25,941,352	18,637,010
BSF supervision fees	21,723,879	19,946,219	21,625,021	19,943,315
Membership fees and dues	18,606,137	15,879,897	18,392,399	16,701,313
Litigation/acquired asset expense (Note 12)	15,067,992	10,840,333	5,547,778	7,855,846
Information technology	14,155,150	12,769,105	13,524,245	12,763,505
Brokerage fees	9,172,524	8,196,931	9,574,323	8,196,931
Others	8,172,524	44,199,656	77,455,170	36,206,180
	P296,223,971	P203,818,297	P274,327,609	P186,698,844

Others include expenses incurred on donations, various bank charges and PCHC processing fees.

27. Provision for Income Taxes

Provision for (benefit from) income tax consists of:

	Consolidated		Parent Company	
	2013	2012 (As restated)	2013	2012 (As restated)
Current				
Final tax	P101,718,616	P71,974,664	P99,403,685	P71,959,786
MCIT	25,356,860	16,532,186	24,297,181	13,553,129
RCIT	3,461,169	6,959,661	3,131,921	2,094,617
	130,536,645	95,466,511	123,700,866	88,644,836
Deferred	39,087,123	(165,719,162)	33,150,296	(163,871,884)
	P169,623,768	(P70,252,651)	P156,851,162	(P75,227,048)

The components of net deferred tax asset follow:

	Consolidated		Parent Company	
	2012	2012	2012	January 1, 2012
	(As restated)	(As restated)	(As restated)	(Note 2)
	2013	January 1, 2012	2013	2012
Deferred tax asset on:				
Allowance for impairment and credit losses	P337,393,326	P245,484,389	P366,616,472	P329,942,170
Excess of tax base of assets acquired from business combination				P239,595,475
Fair value adjustment on derivatives - net	140,239,283	365,485,254	-	140,239,283
Retirement liability	63,262,619	6,683,515	63,262,619	6,683,515
Unamortized past service cost	61,644,415	37,190,543	61,644,415	37,190,543
NOLCO	44,172,964	11,198,761	44,172,964	11,198,761
Excess of MCIT over RCIT	24,571,683	13,838,652	24,571,683	13,838,652
Accrued rent expense	15,084,422	21,056,992	15,084,422	21,056,992
	686,368,712	729,349,975	678,917,556	723,461,061
		457,830,705		453,497,104
Deferred tax liability on:				
Branch licenses acquired from business combinations	426,000,000	426,000,000	426,000,000	426,000,000
Leasing income differential between finance method and operating lease method	5,753,322	3,614,260	5,753,322	3,906,226
Fair value adjustment on asset foreclosures and dacion transacciones - net of accumulated depreciation	2,765,148	18,273,382	2,765,148	18,273,382
Fair value adjustment on derivatives - net	434,518,470	1,213,944	428,765,148	1,213,943
	P251,850,242	449,101,586	P250,152,408	445,487,325
		P433,077,599		P277,973,736
				P432,650,224

The Parent Company recognized deferred tax liability of P288.00 million and P138.00 million on the fair value of branch licenses resulting from the acquisition of ATB and CCAV, respectively (see Notes 35 and 36).

Provision for deferred tax charged directly to OCI, arising from remeasurement losses on retirement plan, amounted to P5.33 million, P32.61 million and P25.25 million in 2013, 2012 and 2011, respectively (see Note 24).

As of December 31, 2013, deferred tax liability of CURB amounting to P5.37 million arose from the gain on asset foreclosure and dacion transacciones of investment properties, net of accumulated depreciation.

The Group and the Parent Company did not set up deferred tax assets (liabilities) on the following:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Excess of tax base over the fair value of loans and receivables acquired from CCAV	P215,005,431	P272,923,689	P-	P-
Allowance for credit and impairment losses	162,519,843	176,076,816	-	8,032,450
NOLCO	3,188,343	134,305,327	-	101,114,370
Excess of MCIT over RCIT	-	1,417,956	-	-

The Group and the Parent Company believe that it is not probable that these temporary differences will be realized in the future.

NOLCO

Details of the Parent Company's NOLCO are as follows:

Inception Year	Amount	Used/Expired	Remaining Balance	Expiry Year
2012	P147,243,212	P-	P147,243,212	2015

Details of RBA's NOLCO are as follows:

Inception Year	Amount	Used	Remaining Balance	Expiry Year
2011	P7,000,655	P7,000,655	P-	2014
2012	8,655,697	8,655,697	P-	2015
	P15,656,352	P15,656,352	P-	

Details of CURB's NOLCO are as follows:

Inception Year	Amount	Used/Expired	Remaining Balance	Expiry Year
2012	P2,404,760	P-	P2,404,760	2015
2013	783,583	P-	783,583	2016
	P3,188,343	P-	P3,188,343	

MCIT

Details of the excess of MCIT over RCIT of the Parent Company are as follows:

Inception Year	Amount	Expired	Remaining Balance	Expiry Year
2010	P7,671,323	P7,671,323	P-	2013
2011	8,562,939	P-	8,562,939	2014
2012	13,552,200	P-	13,552,200	2015
2013	2,456,544	P-	2,456,544	2016
	P32,243,006	P7,671,323	P24,571,683	

Details of RBA's excess MCIT over RCIT are as follows:

Inception Year	Amount	Used/Expired	Remaining Balance	Expiry Year
2010	P135,261	P135,261	P-	2013
2011	341,382	341,382	P-	2014
2012	524,781	524,781	P-	2015
	P1,002,424	P1,002,424	P-	

A reconciliation of income before income tax computed at the statutory tax rate to effective income tax follows:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Statutory income tax	P493,391,877	P409,957,324	P474,804,772	P401,958,558
Additions (reductions) in income tax resulting from:				
FDCU income	(343,660,056)	(235,866,640)	(343,660,056)	(235,866,640)
Tax-paid and tax-exempt income	(305,556,524)	(44,862,617)	(286,645,092)	(48,632,786)
Nondeductible expenses	360,891,411	43,582,210	344,437,880	41,586,241
Change in unrecognized deferred tax assets and others	(35,432,940)	(243,062,928)	(32,086,343)	(234,272,421)
Effective income tax	P169,633,768	P702,562,651	P156,851,161	P715,227,048
				P201,78,777

Under Philippine tax laws, the RBU of the Parent Company and its subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes. Income taxes include corporate income tax, as discussed below, and taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

In addition, current tax regulations provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) that can be claimed as a deduction against taxable income. Under the regulation, EAR allowed as a deductible expense for a service company like the Parent Company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. The regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units is subject to a 7.50% final tax. RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, Offshore Banking Units (OBUs), local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

The computation of the taxable income of the Parent Company already applied the recently issued Revenue Regulations (RR) 4-2011 prescribing the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes.

28. Trust Operations

Securities and other properties held by the Parent Company in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these are not resources of the Parent Company (see Note 30). In connection with the trust functions of the Parent Company, government securities owned by the Parent Company with face value amounting to P130.00 million and P150.00 million as at December 31, 2013 and 2012, respectively, are deposited with the BSP.

In compliance with existing banking regulations, the Parent Company transferred from surplus free to surplus reserve P1.81 million in 2013 and P2.15 million in 2012, corresponding to 10.00% of the net profit realized from its trust operations. The total amount of surplus appropriated for trust operations shall not exceed 20.00% of the Parent Company's authorized capital stock and cannot be paid out as dividends.

29. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Parent Company's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- subsidiaries, joint ventures and associates and their respective subsidiaries, and
- post-employment benefit plans for the benefit of the Parent Company's employees.

The Parent Company has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Transactions with retirement plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Group has business relationships with a number of related party retirement plans pursuant to which it provides trust and management services to these plans. Income earned by the Group and the Parent Company from such services amounted to P0.62 million, P0.30 million and P0.25 million in 2013, 2012 and 2011, respectively. Further, total deposit liabilities of the Parent Company to these related party retirement funds amounted to P55.34 million, and P0.30 million as at December 31, 2013 and 2012, respectively.

Remunerations of Directors and other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The Group considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24.

The compensation of the key management personnel of the Group follows (in millions):

	2013	2012
Short-term employee benefits	P132.76	P94.93
Post employment benefits	1.53	0.75
	P134.29	P95.68

Remunerations given to directors of the Group, which were approved by the Board Remuneration Committee amounted to P3.66 million and P3.72 million in 2013 and 2012, respectively.

The Group has no fixed incentive program in place. The Group aims to attract, motivate and retain employees through a competitive salary scheme which includes both direct (salary and cash-related) and indirect (non-cash benefits) compensation. It is the Group's policy to offer a compensation package that is fair and competitive with current market rates of the industry.

The Parent Company and the subsidiaries and affiliates share the same key management personnel and directors. Hence, the compensation of key management personnel and remunerations given to directors of the subsidiaries and affiliates are paid directly and recorded by the Parent Company. The Parent Company does not provide allocation of the above expenses to the subsidiaries and affiliates.

The Group also provides banking services to directors and other key management personnel and persons connected to them. These transactions are presented in the tables below.

Other related party transactions

Transactions between the Parent Company and its subsidiaries meet the definition of related party transactions. Transactions between the Group and its associated companies also qualify as related party transactions. Details of the Parent Company's subsidiaries are disclosed in Notes 2 and 10.

Related party transactions of the Parent Company by category of related party are presented below (amounts in millions):

Category	Amount/Volume	Outstanding Balances	Nature, Terms and Conditions
December 31, 2013			
Significant Investor		P203.39	These are demand, savings and time deposits account with annual fixed interest rates ranging from 0.00% to 1.60%
Deposit liabilities	P7,154.23		
Deposits			
Withdrawals	(8,716.51)		
Key Management Personnel		76.75	These are employee loans under BSP approved plan with annual interest rate of 8.00% and maturity of 3 years
Loans and receivables			
Issuances	25.08		
Repayments	(29.88)		
Deposit liabilities		36.90	These are savings account with annual fixed interest rates ranging from 0.00% to 0.13%
Deposits	188.26		
Withdrawals	(198.43)		
Other Related Parties		P143.09	Loans with interest rate ranging from 6.50% to 18.00% and terms of 60 days to 91 months; secured by real estate properties, chattel and pledge of receivables with aggregate fair value of P143.09 million
Loans and receivables	P155.87		
Issuances	(149.05)		
Repayments			
Deposit liabilities	5,215.73	413.97	These are demand, savings and time deposits account with annual fixed interest rates ranging from 0.00% to 1.88%
Deposits	(5,386.72)		
Withdrawals			
December 31, 2012			
Significant Investor			
Deposit liabilities		P1,765.67	These are demand, savings and time deposits account with annual fixed interest rates ranging from 0.00% to 3.00%
Deposits	P36,615.40		
Withdrawals	(36,388.15)		
Key Management Personnel		P81.56	These are employee loans under BSP approved plan with annual interest rate of 8.00% and maturity of 3 years
Loans and receivables	P18.32		
Issuances	(26.37)		
Repayments		47.07	These are savings account with annual fixed interest rates ranging from 0.00% to 0.13%
Deposit liabilities	331.72		
Deposits	(314.22)		
Withdrawals			
Other Related Parties		P136.26	Loans with interest rate ranging from 6.50% to 18.00% and terms of 60 days to 113 months; secured by real estate properties, chattel and pledge of receivables with aggregate fair value of P136.26 million; provided with allowance for credit losses amounting to P7.30 million
Loans and receivables	P37.77		
Issuances	(479.44)		
Repayments			
Deposit liabilities	1,588.20	584.96	These are demand, savings and time deposits account with annual fixed interest rates ranging from 0.00% to 3.00%
Deposits	(2,608.38)		
Withdrawals			

Interest income earned and interest expense incurred from the above loans and receivables and deposit liabilities in 2013, 2012 and 2011 follow:

	Significant Investor		Key Management Personnel		Other Related Parties	
	2013	2012	2013	2012	2013	2011
Interest income	P 10.37	P 71.69	P 5.71	P 67.75	P 3.64	P 18.69
Interest expense	10.37	31.15	0.47	0.02	4.28	25.46

Related party transactions of the Parent Company with the subsidiaries and affiliates are as follow:

Category	Amount/Volume	Outstanding Balances	December 31, 2013	
			Nature, Terms and Conditions	
Subsidiaries				
Deposit liabilities				
Deposits	P 1,851.87	P 61.43	These are demand and savings deposits by subsidiaries with the Parent Company's branches with annual fixed interest rates ranging from 0.00% to 0.13%.	
Withdrawals	2,113.66		Interest expense on deposit liabilities.	
Interest expenses	0.04		Advances/investment in subsidiary RBA	
Other assets	200.00	200.00	Various expenses paid by the Parent Company in behalf of CURB	
Accounts receivable	0.50	0.50	Rent income earned on the leased premises	
Rent income	3.78	0.04	Various expenses paid by RBA in behalf of the Parent Company	
Accounts payable	-			

Category	Amount/Volume	Outstanding Balances	December 31, 2012	
			Nature, Terms and Conditions	
Subsidiaries				
Deposit liabilities				
Deposits		P 36.68	These are demand and savings deposits by subsidiaries with the Parent Company's branches with annual fixed interest rates ranging from 0.00% to 0.13%.	
Interest expenses	1.22		Interest expense on deposit liabilities	
Other assets		420.62	Advances/capital infusion to CURB as discussed in Notes 15 and 36	
Accounts receivable		0.15	Rent receivable on the premises owned by the Parent Company which is leased out to AULFC under operating lease	
Rent income	0.69		Rent income earned on the leased premises	
Accounts payable		0.07	Various expenses paid by RBA in behalf of the Parent Company	

Transactions with subsidiaries have been eliminated in the consolidated financial statements.

Other related party transactions of the subsidiaries and affiliates with related parties other than the Parent Company include only Advances from affiliates of AULFC amounting to P20.00 million and P31.00 million as at December 31, 2013 and 2012, respectively. This is a short-term, unsecured and non-interest bearing borrowings from the noncontrolling interest of AULFC recorded under 'Miscellaneous liabilities' in the consolidated statement of condition (see Note 20).

Regulatory Reporting

As required by BSP, the Parent Company discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Parent Company. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said Circular, and new DOSRI loans, other credit accommodations granted under said Circular.

	Parent Company	
	2013	2012
Total outstanding DOSRI accounts	P 158,856,112	P 136,278
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	-	-
Percent of DOSRI accounts granted after under BSP Circular No. 423 to total loans	0.32%	0.38%
Percent of DOSRI accounts to total loans	0.32%	0.38%
Percent of unsecured DOSRI accounts to total DOSRI accounts	-	-
Percent of past due DOSRI accounts to total DOSRI accounts	-	-
Percent of nonaccruing DOSRI accounts to total DOSRI accounts	-	7.90%

The Parent Company's subsidiaries and affiliates do not have loans, other credit accommodations and guarantees to DOSRI during 2013 and 2012.

BSP Circular No. 560 provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, the total outstanding loans, other credit accommodations and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank, and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank as reported to the BSP. As at December 31, 2013 and 2012, the Parent Company is in compliance with these requirements.

BSP issued Circular No. 654 allows a separate individual limit to loans of banks and quasi-banks to their subsidiaries and affiliates engaged in energy and power generation, i.e., a separate individual limit of twenty-five percent (25.00%) of the net worth of the lending bank/quasi-bank; provided, that the unsecured portion thereof shall not exceed twelve and one-half percent (12.50%) of such net worth; provided further, that these subsidiaries and affiliates are not related interests of any of the director, officer and/or stockholder of the lending bank/quasi-bank, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As at December 31, 2013 and 2012, the Parent Company does not have any subsidiary or affiliate that is engaged in energy and power generation.

BSP Circular No. 779 extend for another three (3) years the original three (3) year period allowing a separate single borrower's loan (SBL) limit of 25% of the net worth of the lending bank/quasi-bank for loans, credit accommodations and guarantees granted for undertaking infrastructure and/or development projects under the Public-Private Partnership (PPP) Program. The extension of another three (3) years for the separate 25% SBL for PPP infrastructure and/or development projects is expected to encourage the financial sector's participation in the PPP Program of the government, particularly with respect to the projects.

BSP Circular No. 785 grants exclusions from the DOSRI cap for all loans and other credit accommodations covered by guarantees of international and regional multilateral financial institutions where the government is a participant or a shareholder.

30. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding contingent liabilities and bank guarantees which are not reflected in the accompanying financial statements. The Group does not anticipate material unreserved losses as a result of these transactions.

The Group has several loan-related suits and claims that remain unsettled. It is not practical to estimate the potential financial impact of these contingencies. However, in the opinion of management, the suits and claims, if decided adversely, will not involve sums having a material effect on the financial statements.

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

	2013	2012
Trust department accounts (Note 28)	P9,193,079,788	P12,573,626,307
Unused commercial letters of credit	1,414,114,264	893,013,996
Inward bills for collection	824,373,074	716,080,029
Standby letters of credit	746,526,084	921,157,195
Outstanding guarantees issued	523,627,987	445,124,229
Late deposits/payments received	160,242,187	183,595,721
Outward bills for collection	22,730,671	4,675,522
Others	454,016	644,745

Others include items held for safekeeping and items held as collateral.

The Parent Company's subsidiaries and affiliates do not have commitments and contingent liabilities outstanding as at December 31, 2013 and 2012.

31. Financial Performance

Earnings per share amounts were computed as follows:

	2013	2012	2011
	(As restated)	(As restated)	(As restated)
a. Net income attributable to equity holders of the Parent Company	P1,459,234,942	P1,427,954,532	P1,128,349,130
b. Net income attributable to minority interest	15,770,880	8,822,533	6,249,336
c. Total weighted average number of outstanding common**	288,731,877	240,000,000	240,000,000
d. Basic EPS** (a/c)	P5.05	P5.95	P4.70

*The calculation of the weighted average number of outstanding common shares considered the retroactive effect of stock split in 2012 and 2011.

**The Group's Basic EPS is the same as its Dilutive EPS since there are no securities with dilutive features

The following basic ratios*** measure the financial performance of the Group and the Parent Company:

	Consolidated	2012	Parent Company	2012
	2013	2012	2013	2012
Return on average equity	9.96%	13.75%	9.73%	13.76%
Return on average assets	1.73%	2.49%	1.70%	2.49%
Net interest margin on average earning assets	3.76%	3.61%	3.71%	3.57%

***The ratios are based on the respective statements of income accounts divided by average balance which is equal to the sum of beginning and ending balances of the respective statements of condition accounts as of the end of the period divided by two.

32. Notes to Statements of Cash Flows

The following is the summary of noncash activities:

	Consolidated	2012	Parent Company	2012
	2013	2012	2013	2012
Noncash investing activities:				
Additions to investment properties in settlement of loans (Note 12)	P59,893,866	P35,513,329	P31,755,467	P18,201,210
Additions to property and equipment through business combination (Note 11)		13,824,832		12,088,684
Additions to investment properties through business combination (Note 12)		800,928,322		775,003,009
Noncash financing activities:				
Transfers to surplus reserves	(1,807,535)	2,145,722	(1,807,535)	2,145,722

As of December 31, 2013, amounts of interbank loans and receivables which have original maturities of more than three months amounted to P16.38 million.

33. Offsetting of Financial Assets and Financial Liabilities

The amendments to PFRS 7, which are effective January 1, 2013, require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding table.

Financial liabilities

	December 31, 2013				
	Gross amounts off-set in accordance with the offsetting criteria	Net amount presented in statements of financial position (a-b)	Effect of remaining rights of set-off (including the effect of financial collateral) that do not meet PAS 32 offsetting criteria	Fair value of financial instruments collateral	Net exposure (c-d)
Financial assets recognized at end of reporting period by type	(a)	(b)	(c)	(d)	(e)
Bills payable	P6,701,388,806		P6,701,388,806	P6,701,388,806	P7,876,587,337

Bills payable consists of securities sold under agreements to repurchase, that are subject to right of set-off which are enforceable in the event of default.

The Group has no outstanding bills payable of this nature as of December 31, 2012.

34. Acquisition of Rural Bank of Angeles

On June 30, 2009, the Parent Company acquired the 96.05% outstanding common shares and 5.85% outstanding preferred shares of RBA. The Parent Company acquired RBA as a platform to expand its countryside banking activities and, in particular, engage in sustainable microfinancing and SME lending activities.

Each of the majority shareholders agreed to undertake to cause the sale of the remaining common and preferred shares to transfer 100.00% shareholdings of RBA by the shareholders thereof to the Parent Company at P0.10 per share. To "cause the sale" shall include the obligation of any or all of the majority shareholders to purchase the remaining shares from the shareholders thereof and upon such purchase, sell the same to the Parent Company at P0.10 per share regardless of the acquisition cost of the remaining shares by any or all of the majority shareholders.

Among the agreements of both parties are as follows:

Indemnities of the Majority Shareholders

Subject to the limitation and qualifications as provided in the Section 3 of the Share Purchase Agreement (SPA), each of the majority shareholders shall solidarily indemnify the Parent Company for a breach on any of its representation and warranties under the SPA. An escrow account was created to ensure compliance with the agreement.

The Escrow Account

The following assets were placed in escrow with the Parent Company's Trust and Investments Group, as escrow agent, by the majority shareholders:

- (i) Parcels of land covered by Transfer Certificate of Title (TCT) Nos. 8516, 8517, and 8518, all located in Pampanga and all under the name of the majority shareholders, and improvements thereon ("Property 1");
- (ii) Parcels of land covered by TCT Nos. 8519, and 8520, all located in Brgy. La Paz, Arayat, Pampanga and under the name of majority shareholders and improvements thereon ("Property 2"); and
- (iii) Parcel of land covered by TCT No. 80405 under the name of RBA used as current site of RBA's Main Branch in Pampanga and improvements thereon ("Property 3").

Under the agreement, the escrow assets shall be placed in escrow for a period of three (3) years from the date of the opening of the escrow account as security for the following:

- Contingent claims;
- Credit facilities amounting to P14.10 million, as specified in Annex P of the SPA; and
- Credit facilities amounting to P68.00 million, as specified in Annex Q of the SPA.

During 2012, RBA and the majority shareholders agreed on the following:

- To waive their right to repurchase the current site of RBA's Main Branch (Property 3)
- To effect the Dacion en Pago of 5 remaining sites (Property 1 and 2)

As at December 31, 2013, Property 1 and 2 are still in process of Dacion en Pago.

RBA has reported total operating income and net income of P95.1 million and P37.0 million, respectively, in 2013, and P58.64 million and P10.94 million, respectively, in 2012.

35. Acquisition of Asiatrust Development Bank (ATB)

On February 12, 2012, ATB and the Parent Company executed the Asset Sale and Purchase Agreement (ASPA), which was accomplished to acquire the banking assets and assume the banking liabilities of ATB. The trust assets of ATB, estimated at about P250.00 million, were excluded from this acquisition.

The purchase of recorded assets and assumption of recorded liabilities of ATB by the Parent Company was approved by the Monetary Board (MB) of the BSP under MB Resolution No. 760 dated May 15, 2012.

On June 15, 2012, the Parent Company performed various acts of ownership on ATB, effectively making it the closing date for the acquisition.

The Parent Company accounted for the transaction as an acquisition of a business. The Parent Company essentially acquired the banking operations of ATB which includes both the assets acquired and the operational and resource management processes associated with the branch operations of ATB. The Parent Company also acquired ATB's assembled workforce by rehiring ATB employees to ensure business continuity. ATB's operations are expected to be integrated into AUB's business to generate additional revenue for the Group.

Assets acquired and liabilities assumed

The Parent Company determined the assets acquired and liabilities assumed from the business combination and provisionally made an assessment of their fair values in 2012.

During the measurement period up to June 15, 2013, the Parent Company retrospectively adjusted the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date, including information based on appraisal reports for investment properties and information on the borrowers and status of their accounts. The measurement period adjustments recognized during the reporting period to effect in the fair valuation of assets acquired consists of the following:

- Decrease in loans and receivables of P231.97 million
- Decrease in investment properties of P267.77 million
- Recognition of equity investments included in 'AFS investments' of P18.98 million
- Recognition of deferred tax assets of P74.84 million for the excess of the tax base over the fair value of assets acquired

The above adjustments resulted in the net increase in goodwill by P74.23 million.

The Group restated the comparative December 31, 2012 consolidated statement of condition to reflect the measurement period adjustments in the fair valuation of assets acquired and liabilities assumed from the business combination. These retrospective adjustments did not have material impact on the Group's consolidated statement of income and comprehensive income for the year ended December 31, 2012.

The fair values of the identifiable assets and liabilities acquired at the date of acquisition are as follows:

	Final fair value of the net assets recognized on acquisition date
Assets	
Cash and other cash items	P71,122,354
Due from BSP	266,624,509
Due from other banks	483,821,340
Financial assets at FVPL	28,356,797
AFS investments	22,468,696
Loans and receivables	1,219,943,433
Property and equipment	12,083,684
Investment properties	729,408,017
Branch licenses (Note 14)	960,000,000
Other assets	4,881,706
Total assets	3,798,715,536
Liabilities	
Deposit liabilities	4,833,234,878
Bills payable	180,493,448
Deferred tax liabilities	213,156,280
Manager's check	212,750,075
Accrued and other expenses	127,637,131
Total liabilities	5,375,796,812
Net Liabilities	(P1,577,081,276)

The Parent Company recognized the fair value of branch licenses acquired as a result of the business combination amounting to P960.00 million and the related deferred tax liability (netted against deferred tax assets) of P288.00 million.

The acquisition resulted in goodwill determined as follows:

Investment cost	P
Fair value of net liabilities acquired	1,577,081,276
Goodwill	P1,577,081,276

The goodwill arising from the acquisition is attributed to factors such as increase in geographical presence and customer base due to branch licenses acquired. Goodwill is allocated entirely to the Branch Banking Group.

The following were the regulatory reliefs/incentives received by the Parent Company from BSP as a result of the acquisition:

- Goodwill arising from the acquisition shall be recognized and shall be excluded as a deduction from qualifying capital for a period of three (3) years.
- ATB branches shall be upgraded from thrift bank branch license to universal/commercial bank branch license. The additional branches are limited to a maximum of 30 additional restricted branches, exclusive of the 18 existing ATB branches.
- The Parent Company received a 10-year financial assistance package from the PDIC. The financial assistance is the form of a direct loan to the Parent Company in the amount of P1,277 billion secured by government securities pledged to PDIC. At all times, the total market value of these government securities shall not be less than 110% of the outstanding loan. The loan has a term of 10 years and the interest rate is fixed at 1% per annum.

The Parent Company recognized the financial assistance as a borrowing from PDIC in accordance with PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Since the borrowing from PDIC bears low interest rate and was recognized at present value of P540.23 million on the date the financial assistance was received, the difference of P736.77 million between the value of the bills payable and the related proceeds from the PDIC financial assistance was accounted for as government grant and was recorded as 'Unearned income' under the 'Other liabilities' account (see Note 20), and amortized using the effective interest rate of 10.32% until the maturity of the borrowings from PDIC. In 2013, the Parent Company recorded interest expense on the accretion of bills payable amounting to P48.52 million and interest income on the amortization of the unearned income of the same amount. As at December 31, 2013 and December 31, 2012, government securities with face value of P1.43 billion and P1.30 billion, respectively, are pledged to PDIC as security for the financial assistance received.

36. Acquisition of Cooperative Bank of Cavite (CCAV) and Incorporation of Cavite United Rural Bank (CURB)

On October 4, 2011, the Parent Company executed an Asset Sale and Purchase Agreement (ASPA) to acquire all assets, liabilities and branch licenses of a troubled cooperative bank, CCAV. The BOD of the Parent Company approved the infusion of P360.00 million into CCAV under the Strengthening Program for Cooperative Banks of the BSP. The Program is designed to give financial incentives and assistance to cooperative banks and their partner Strategic Third Party Investor.

The Parent Company intended to accomplish the acquisition of CCAV through the following steps:

1. The Parent Company will provide a maximum credit facility of P360.00 million to CCAV;
2. The Parent Company will incorporate a new rural bank, CURB, to purchase the assets, liabilities, and banking operations of CCAV by paying P90.80 million to the shareholders of CCAV; and
3. The Parent Company will convert the credit facility in CCAV into equity interest in CURB.

On February 6, 2012, the SEC approved the incorporation of CURB, as a microfinance-oriented bank and a wholly owned subsidiary of the Parent Company, with authorized capital stock of P100.00 million, comprising of 100 million shares with P1 par value. The Parent Company subscribed and paid for the 25% of the authorized capital stock amounting to P25.00 million.

On September 30, 2012, the closing date, CURB legally acquired the assets and assumed the liabilities of CCAV.

On October 9, 2012, the Parent Company paid P90.81 million to the shareholders of CCAV as consideration for the acquisition, which is recorded as cost of investment in CURB by the Parent Company.

The transaction is accounted for as business combination, where the Parent Company is the accounting acquirer and CURB was used as the vehicle to effect the transaction. The acquisition of the assets and assumption of the liabilities of CCAV by CURB is accounted as a contribution of business from the Parent Company without consideration. This is treated as an equity transaction by CURB and as an investment by the Parent Company (see Note 10).

The transaction resulted in a Gain on bargain purchase as follows:

Cash consideration for the acquisition	P90,810,918
Fair value of net assets acquired (see below)	107,476,551
Gain on bargain purchase	P16,665,633

The final fair values of the identifiable assets and liabilities acquired at the date of the acquisition are as follows:

Assets	Fair Value recognized on acquisition date
Cash and other cash items	P819,855
Due from BSP	1,063,998
Due from other banks	34,632,388
Loans and receivables	90,612,181
Property and equipment	1,736,148
Investment properties	25,925,310
Branch licenses (Note 14)	460,000,000
Other assets	277,185
	615,067,065
Liabilities	
Demand deposits	P1,524,114
Savings deposits	18,543,802
Time deposits	20,238,454
Bills payable	325,891,860
Deferred tax liabilities	138,000,000
Accrued expenses and other liabilities	3,392,284
	507,590,514
Fair value of net assets acquired	P107,476,551

As a result of business combination, the Parent Company recognized the fair value of branch licenses awarded by the BSP amounting to P460.00 million and the related deferred tax liability of P138.00 million.

The bills payable amounting P325.89 million represents the Parent Company's advances to CCAV provided on November 29, 2011 which was assumed by CURB as a result of business combination. The amount is converted to equity interest of the Parent Company in CURB.

Deferred tax assets arising from the excess of the tax base over the fair value of the assets acquired are not recognized by the Group. The Group believes that the benefits from the utilization of the deferred tax assets will not be probable in the foreseeable future.

Cash flow on acquisition follows:

Cash and cash equivalents acquired from CURB*	P36,516,241
Cash consideration for the acquisition	(90,810,918)
Net cash outflow	(P54,294,677)
*includes Cash and other cash items, Due from BSP and Due from other banks	

In 2012, CURB has reported total operating income and net income of P10.53 million and P0.17 million, respectively. Should the acquisition had taken place at the beginning of the year, the consolidated net loss before tax would have increased by P0.21 million.

37. Acquisition of Cooperative Bank of Pampanga (CBP)

In September 9, 2013, RBA and CBP, with conformity of the Parent Company, entered into Memorandum of Agreement (MOA) involving the acquisition of assets and liabilities of CBP by RBA. In the MOA, the parties agreed that the purchase price for the acquisition shall be P1.00, which will be paid on the "closing date". The closing date is the date of the final approval by the BSP.

The MB of the BSP, in its Resolution No. 1621 dated October 3, 2013, approved-in-principle the purchase of all assets, including the seven existing banking units (i.e. six branches and the head office), and assumption of all liabilities of CBP by RBA, subject to the submission and compliance with certain requirements. As condition precedent to the acquisition, AUB shall commit to recapitalize RBA for an amount not lower than P400.00 million in order for RBA to maintain a net worth of at least P100.00 million and a minimum capital adequacy ratio of at least 15% under SPCB Plus. Furthermore, BSP will grant 20 branch licenses in restricted areas to the Parent Company. The approval-in-principle includes the notation of RBA's request for extension of P767.00 million-direct loan assistance from PDIC.

On November 7, 2013, in special stockholder's meeting by RBA, the stockholders approved the purchase of assets and assumption of liabilities of CBP.

As of December 31, 2013, the Parent Company has already infused financial assistance of P200.00 million to RBA, which is intended to be converted as equity interest in RBA in 2014. The financial assistance was used to service the withdrawals from all valid and existing deposits or accounts in CBP. The P200.00 million is recorded under "other assets" in the Parent Company's statement of condition, and eliminated in the Group's consolidated financial statements.

As of December 31, 2013, the Parent Company has submitted and complied with the requirements to the BSP pending the final approval of the MB.

As of March 21, 2014, the business combination has not yet consummated.

38. Approval for the Release of the Financial Statements

The accompanying consolidated financial statements of the Group and the Parent Company financial statements as at and for the years ended December 31, 2013 and 2012 and for each of the years in the period ended December 31, 2013 were approved and authorized for issue by the BOD on March 21, 2014.

39. Supplementary Information Under Revenue Regulations 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) 15-2010 to amend certain provisions of RR 21-2002. RR 15-2010 provides that starting 2010 the notes to financial statements shall include information on taxes and licenses paid or accrued during the taxable year.

The Parent Company reported and/or paid the following types of taxes in 2013:

Taxes and Licenses

As at December 31, 2013, taxes and licenses of the Parent Company, which includes all other taxes, local and national, consist of:

	Amount
Gross receipts tax (GRT)	P163,851,576
Documentary stamp tax	60,314,016
Real property tax	24,395,453
Business permit and licenses	9,600,714
Others	1,695,433
	P259,857,192

Gross Receipts Tax

The Parent Company is subject to GRT on its gross income from Philippine sources. GRT is imposed on interest, fees and commissions from lending activities at 5% or 1%, depending on the loan term, and at 7% on non-lending fees and commissions, trading and foreign exchange gains and other items constituting gross income.

	Gross Receipts	Gross Receipts Tax
Income derived from lending activities	P2,496,367,968	P94,111,199
Other income	996,291,104	69,740,377
	P3,492,659,072	P163,851,576

Withholding Taxes

Details of total remittances in 2013 and balances as at December 31, 2013 are as follows:

	Total Remittance	Balance
Withholding taxes on compensation and benefits	P1,241,76,453	P 4,796,332
Final withholding taxes	112,664,232	20,080,562
Expanded withholding taxes	25,278,369	2,608,253
	P262,119,054	P27,485,147

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F: (034) 433-9956

BRANCHES

BACOLOD – BURGOS ESJ Center, Burgos Street Bacolod City T: (034) 708-9356 • 433-9956 (034) 434-7121 local 429 F: (034) 433-9956	BULACAN – MALOLO Kilometers 44-45, Barangay Longos Malolos City, Bulacan T: (044) 893-9506 • 893-9572 (044) 760-0069 • 7600415 (02) 475-7936	CALAMBA National Highway corner Jasmin Street Brig. Uno, Crossing, Calamba City T: (049) 545-0568 • 545-0338 local 425 F: (049) 545-0348	CEBU – AYALA BUSINESS PARK 3 Archbishop Reyes Avenue Kamputhaw, Lahug, Cebu City T: (032) 268-9341 • 505-2172 • 268-9272 F: (032) 268-9272	CEBU – AGDAO 127 Lapulapu Street corner Dacudao Avenue Agdao District, Davao City T: (082) 221-7630 • 285-9765 • 300-3494	DIPOLOG Quezon Avenue, Dipolog City T: (065) 212-1340 • 212-1341 (065) 908-0278 local 338
BACOR 286 Rotonda Highway, Panapaan 5 Bacoar, Cavite T: (046) 970-0254 • 970-0249 • 417-0269 (02) 668-0721	BULACAN – STA. MARIA 44 Corazon de Jesus Street Poblacion, Sta. Maria, Bulacan T: (044) 815-7767 • 815-7977 • 815-4599 F: (044) 815-4599	CALAPANG Gaisano Capital Calapan, Tawiran National Road, Calapan, Oriental Mindoro T: (043) 288-2344 • 288-2322	CEBU – F. GONZALES Lianting Center Pres. Sergio Osmeña Boulevard corner F. Gonzales Street, Cebu City T: (032) 412-8700 • 412-6600 F: (032) 412-6600	DAVAO – BUHANGIN Buhangin Road, Buhangin District Davao City T: (082) 305-7674 • 285-8252 • 285-8253 (02) 985-2853	DUMAGUETE Dr. V. Locsin Street, Poblacion 003 Dumaguete City, Negros Oriental T: (035) 420-9086 • 420-9097 local 465
BALIBAGO 101-102 Springfront Building McArthur Highway, Balibago, Angeles T: (045) 304-0586 • 598-0341 • 5980274 F: (045) 598-0341	BUTUAN A.D. Curato corner P. Burgos Streets Butuan City T: (085) 815-0433 • 342-8288 • 815-0288	CALBAYOG J.D. Avelino Street corner Gomez Extension Calbayog City, Samar T: (055) 533-8187 • 209-4605 (055) 209-4603 local 461	CEBU – JONES Units 3 to 6, Harrison Place, Osmeña Boulevard corner Urgello Street, Cebu City T: (032) 239-1100 • 239-1099 (032) 412-9240 local 453 F: (032) 239-1099	DAVAO – DAMOSA Unit 8, Commercial Building Manay Road, Lanang, Davao City T: (082) 234-7067 • 234-2506 • 234-7269 (082) 234-6919 • 305-1181 (02) 542-5413	GAPAN Ground Floor, KL Building Gen. Tinio Street, San Vicente Gapan City, Nueva Ecija T: (044) 333-0070
BATANGAS CHI - Caritas Health Shield Inc., Padre Burgos Street, Batangas City T: (043) 980-0027 • 980-0028 (043) 702-2434 local 455	CABANATUAN JRS Building, Maharlika Highway Brig. H. Concepcion, Cabanatuan City T: (044) 940-1087 • 940-0698 (044) 329-2049 local 304	CANDON Ground Floor, BHF Pawnshop Building National Highway, San Isidro, Candon City T: (077) 674-0892 • 674-0895 (077) 674-0894 local 413	CEBU – MANGO Dyno Finance Center, Juana Osmeña corner J. Llorente Street, Cebu City T: (032) 254-3106 • 412-4475 • 255-8290 F: (032) 253-7686	DAVAO – MONTEVERDE Ground Floor, Lao Building Suazo corner Monte Verde Streets Davao City T: (082) 305-4007 • 222-6431 local 423 F: (082) 222-4716	GENERAL SANTOS Belinda Enterprise Building Santiago Boulevard, General Santos City T: (083) 552-8801 • 552-8803 (083) 301-92-00 • 302-0330 local 424 F: (083) 552-8802
BATANGAS – LEMERY Ground Floor, LEC Building Illustre Avenue, Lemery, Batangas T: (043) 740-0387 • 740-0705 • 740-0752 (043) 702-2434 local 455	CAGAYAN DE ORO 9000 C.M. Recto Avenue Lapasan, Cagayan de Oro City T: (088) 856-8893 F: (088) 729-678	CATBALOGAN San Francisco Street corner Rizal Avenue Catbalogan, Samar T: (055) 251-4003 • 251-4004 (055) 543-8253 local 462	CEBU – SALINAS MIT Building, 117 Gorordo Avenue Lahug, Cebu City T: (032) 231-5065 • 231-5026 • 414-7035 F: (032) 231-5026	DAVAO – RIZAL G/F DGGG Building C. Bangoy Street corner JP Rizal Streets Davao City T: (082) 224-0724 • 224-0719 • 300-1813	GENERAL SANTOS – APARENTE One Roma Square, Aparente Avenue Barangay Heights, General Santos City T: (083) 552-1363 • 552-1364 • 552-1365 (02) 668-1436 F: (083) 552-1363
BATANGAS – LIPA Upper Ground, Lot 757-A B. Morada Avenue, Lipa City, Batangas T: (044) 981-0154 • 756-1150 (043) 702-2033 local 432 F: (043) 756-1150	CAGAYAN DE ORO – CARMEN Units 101 to 103, Gaisano Building Max Suniel Street, Carmen Cagayan de Oro City T: (088) 880-2687 • 880-2691 (08822) 745-996	CAVITE – PEZA Ground Floor, Red Ribbon Building General Trias, Cavite T: (046) 437-2871 • 437-0066 local 428 F: (046) 437-0066	DAGUPAN Catholic Trade Center AB Fernandez Avenue, Dagupan City T: (075) 522-7621 • 523-6293 F: (075) 523-6293	DAVAO – TAGUM Gaisano Mall, Briz District National Highway, Magugpo East Tagum City T: (084) 308-0090 • 655-0157 (084) 655-0158 local 457	ILIGAN Roxas Avenue corner Zamora Street Iligan City
BULACAN – BALIUAG Li Building, 282 DRT Highway Bagong Nayon, Baliuag, Bulacan T: (044) 308 0057 • 308 0058 local 456 F: (044) 308-0057	CAGAYAN DE ORO – COGON Osmeña corner Hayes Streets, Cogon Cagayan de Oro City T: (088) 323-1606 • 323-1605	CAUAYAN Maharlika Highway, San Fermin, Cauayan City T: (078) 652-0436 • 652-0437	DASMARINAS Congressional Road, Buroil Main Dasmariñas, Cavite T: (046) 416-5765 • 416-6703 • 973-1590 F: (046) 973-1590	ILOILO – IZNART Ground Floor, Unit 30, Amigo Mall Iznart corner Delgado Streets Iloilo City T: (033) 503-2889 • 503-2890 (033) 503-2891 local 335 F: (033) 503-2889	ILIGAN Roxas Avenue corner Zamora Street Iligan City
BULACAN – BOCAUE 107 McArthur Highway, Wakas Bocaue, Bulacan T: (044) 769-1093 • 769-0260 • 7691440 (02) 330-4569	CEBU – A.S. FORTUNA 853 TW & Company Inc. Building AS Fortuna Street, Mandaue City, Cebu T: (032) 505-2680 • 505-4435 (032) 418-1479 local 437 F: (032) 418-1479	DAVAO Central Plaza I, J.P. Laurel Avenue Davao City T: (082) 221-9651 • 300-2088 • 221-9757 (082) 221-9132 • 300-8390 F: (082) 221-9757	DAVAO – TORIL Commercial Hotel Building Saavedra corner Guardians Streets Toril, Davao City T: (082) 285-7132 • 285-7128 local 331	ILOILO – IZNART Ground Floor, Unit 30, Amigo Mall Iznart corner Delgado Streets Iloilo City T: (033) 503-2889 • 503-2890 (033) 503-2891 local 335 F: (033) 503-2889	ILIGAN Roxas Avenue corner Zamora Street Iligan City

IMUS	LAOAG	MEYCAUAYAN	ROXAS	TAGUM
KALIBO	LEGAZPI CITY	MEYCAUAYAN II	SAN FERNANDO	TARLAC
KIDAPAWAN	LUCENA	NAGA	SAN JOSE DEL MONTE	TUGUEGARAO
KORONADAL	LUCENA DIVERSION	NAGA II	SAN PABLO CITY	VALENCIA - BUKIDNON
LA UNION - RELOCATION	MAASIN	NUEVA ECIJA - SAN JOSE	SANTIAGO	VIGAN
LAGUNA - BIÑAN	MANDAUE	ORMOC	SURIGAO	ZAMBOANGA
LAGUNA - STA. CRUZ	MEYCAUAYAN	PAGADIAN	TAGBILARAN	ZAMBOANGA - CLIMACO
LVC Commercial Building, Laguna Boulevard	MARILAO	PUERTO PRINCESA	TACLOBAN	TACLOBAN
Barangay Don Jose, Sta. Rosa City, Laguna	VAG Complex, NLEX Northbound Service Road Brgy, Patubig, Marilao, Bulacan	Ma. Elena M. Hagedorn Building 178 Rizal Avenue, Puerto Princesa	CAGNAN	CAGNAN
(049) 851-1801 local 427	(049) 544-0465 • 544-0466	(049) 544-0465 • 544-0466	(049) 544-0465 • 544-0466	(049) 544-0465 • 544-0466
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BILLERS

Legend: • ATM • AUB Online

Telecommunications

BayanTel
 Digitel
 Amex Telecoms
 Globe Telecom
 Innove Communications, Inc.
 Philippine Long Distance Telephone (PLDT)
 PT&T/Greendot
 Smart Communications

Life Insurance

AXA Philippines
 Fortune Care
 PNB Life
 Great Life Insurance
 Grepalife (July 2009)
 Paramount Life
 Pioneer Life
 PruLife U.K.
 Prudential Life Plans
 Sun Life of Canada Phils.

Utilities / Toll Fees

Easytrip
 Skyway E-PASS
 First Peak Resources & Tech. Inc.
 First Peak (Water company)(2009)
 Manila Water
 Maynilad
 MERALCO
 Primewater (2008)
 Subic Water
 VECO

Cable Companies

Destiny Cable
 Planet CATV (2009)
 SkyCable/ZPDEE

ISP

My Destiny SBC (Solid Broadband)
 Infocom

Loan Payments

Chinatrust Salary Stretch
 Citibank Savings
 Citifinancial
 CityState Savings Bank
 FG Financial
 HSBC Personal Loans (2009)
 PS Bank Loans
 Standard Chartered EZ Loan

Credit Cards

Allied Bank Mastercard
 American Int'l Group (AIG)
 Amex Platinum (2008)
 Banco de Oro Credit Cards
 Banco Filipino VISA
 Bankard-RCBC/JCB Intl
 Citibank Mastercard/VISA
 Diner's Card/Security Bank Credit Cards
 EastWest Bank Credit Cards
 Equicom Savings
 HongKong Shanghai Bank Credit Cards
 Metrobank/PSB card (VISA/MC)
 Standard Chartered Visa/MasterCard
 Unionbank Visa

Government Services

National Statistics Office
 (NSO) Helpline Plus (Pilipinas Teleserv)
 Social Security System
 Non working spouse
 Self-employed
 Voluntary
 Farmers & Fishermen
 ORF

Schools / Universities

Don Bosco Technology Center (Cebu)
 DBTC (2008)
 La Salle Greenhills (2007)
 Miriam College (July 2009)
 University of San Jose - Recoletos (July 2009)

Charitable Institutions

Bantay Bata
 Far East Broadcasting Phils.
 (a non-profit religious organization)
 Piso Para sa Pasig
 Resources for the Blind
 World Vision Devt. Inc.
 Manila Mission Church of Jesus Christ & Latter Day Saints

Others

CDC Mimosa Golf & Country Club
 Cebu Pacific/Cebu Air
 Directories Phils. Corp.
 Phil. Academy of Family Physicians (2008)
 IPMI Realty Development Corp (2008)
 Manila Memorial Park
 Telecom Concepts/Load Com
 British Embassy
 Rockwell Residential Towers Condominium (2009)

PRODUCTS AND SERVICES

DEPOSIT ACCOUNT PRODUCTS

Preferred Peso Checking
 Preferred Peso Checking Plus
 Preferred Savings Plus
 Preferred Time Deposit
 Preferred Money Max 5
 Preferred Dollar Savings
 Preferred Dollar Time Deposit
 Preferred Renminbi Account

CASH MANAGEMENT SERVICES

AUB BizKit Checking Account
 Payroll Organizer
 CheckMaker
 CheckBanker
 SSS Remitter
 BalanceChecker
 e-Banker
 Manager's Check Writing Facility

TRUST AND INVESTMENT SERVICES

Employee Benefit Trust
 Provident Fund
 Pension Fund
 Fund Management
 Individual/Corporate Portfolio Management
 Pre-Need Fund Management
 Unit Investment Trust Fund Management
 AUB Peso Investment Fund
 AUB Equity Investment Fund
 AUB Gold Dollar Fund
 Estate Planning
 Guardianship
 Living Trust
 AUB Gold Chest Plan
 Testimonial Trust

SPECIAL CORPORATE SERVICES

Escrow Agency
 Custodianship Services
 Mortgage Trust Indentures

TREASURY SERVICES

Fixed-Income Trading and Distribution
 Local Currency Treasury Bills/ Treasury Notes/ Bonds
 Fixed Floating Rate Corporate Notes
 Short and Long-Term Commercial Papers
 USS-denominated Certificates of Deposit
 USS-denominated US Treasuries
 USS-denominated Eurobonds/Notes
 USS-denominated Credit-Linked Notes

Foreign Exchange Trading
 Spot Trading
 Currency Swaps and Forwards
 Cash (Notes) Handling

CREDIT AND LOAN FACILITIES

Short-Term Working Capital Loans
 Trade Financing Facilities
 Domestic Letters of Credit with Trust Receipt Facility
 Import Letters of Credit with Trust Receipt Facility
 Packing Credit or Export Loans versus LCs or POs
 Domestic Bills Purchase Line
 Foreign Loan/Financing Packages
 Corporate Salary Loan Program
 BSP USS/Peso Rediscounted Loans
 Specialized Lending Facilities
 DBP-Funded
 Industrial Guarantee Loan (IGLF)
 Japan Export-Import Bank Facility (JEXIM)
 Japan Export-Import Bank Facility (JEXIM)
 Industrial and Support Services
 Expansion Program (ISSEP II)
 Environmental Infrastructure Support
 Credit Program (EISCP I)
 SSS-Funded
 SSS-GSIS Financing Program
 Financing Program for Tourism
 Hospital Financing Program
 Financing Program for Educational Institutions
 Housing Loan Program
 Development Program
 Syndicated Medium & Long-Term Loans
 Documents Against Acceptance (DA)
 Documents Against Payment (DP)
 Open Account (TT)

INTERNATIONAL BANKING SERVICES

Letters of Credit/Collection of Clean and Documentary Bill
 Foreign and Domestic Remittance
 Purchase and Sale of Foreign Exchange

AUXILIARY SERVICES

Preferred ATM
 AUB RediMoney
 Preferred PhoneBanking
 Preferred Online Banking
 Safe Deposit Box
 Deposit Pick-up Service
 Manager's Check/Gift Checks
 Fund Transfer (TT/DD)
 Electronic and Clearing Conduit Solutions

SHAREHOLDERS' INFORMATION

CORPORATE INFORMATION

Asia United Bank Corporation
Joy~Nostalg Tower
No. 17 ADB Avenue
Ortigas Center, Pasig City, Philippines
Tel. Nos. 631-3333 or 638-8888
Website: www.aub.com.ph

ANNUAL SHAREHOLDERS' MEETING

Monday, 9 June 2014, 9:30 a.m.
5th Floor Nostalg Ballroom
Oakwood Premier Joy~Nostalg Center
No. 17 ADB Avenue
Ortigas Center, Pasig City, Philippines

STOCK LISTING

Asia United Bank (AUB) common shares are listed and traded at the Philippine Stock Exchange (PSE) under the ticker symbol "AUB".

The Parent Company's shares were listed and first traded on May 17, 2013.

SHAREHOLDERS

As of April 30, 2014, AUB has 323,540,360 issued and outstanding shares, of which 18.10% is owned by foreign entities, which is below the maximum limit of 40% for foreign ownership.

In addition, 33.72% of the issued shares pertain to public shares, which is above the 10% set by the PSE.

As of April 30, 2014, AUB has 99 shareholders, including PCD nominee accounts, who own at least one board lot.

MARKET INFORMATION

Following are the high and low closing prices of AUB shares as reported in the PSE for each quarter of 2013:

YEAR	QUARTER	SHARE PRICE (PHP)	
		HIGH	LOW
2013	Q1	N/A	N/A
	May 17	105.10	101.50
	Q2	82.00	79.50
	Q3	73.50	72.20
	Q4	68.20	68.10
2014	Q1	70.90	70.10

SHAREHOLDER ASSISTANCE AND SERVICES

For investor relations, please email or call:

investorrelationsoffice@aub.com.ph
Tel. Nos. (632) 638-8888 or 631-3333 local 582.

For shareholder services, please write or call:

Stock Transfer Service, Inc.
34-D Rufino Pacific Tower
6784 Ayala Avenue, Makati City
Tel. Nos. (632) 403-2410 or 403-2412

ANNUAL REPORT COPIES

Copies of this annual report may be obtained upon written request to:

The Investor Relations Officer.
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