

# 2013

ANNUAL REPORT

# ROBINSONSBANK



# ROBINSONSBANK



READY TO SERVE YOU FAST



# Contents

---

- 2** Our Company
  - Company profile
  - Mission Vision
- 4** Table of Organization
- 5** Board of Directors
- 7** Senior Officers
- 9** Financial Performance Highlights
- 19** President's Report
- 24** Risk Management
- 54** Capital Adequacy and Capital Management
- 62** Corporate Governance
  - Management Oversight of Subsidiary
  - Legazpi Savings Bank
- 99** Related Party Transactions
- 103** Statement of Management Reponsibility
- 104** Independents Auditors' Report
- 108** Audited Financial Report
- 200** LSB Branches
- 201** Branch Network
- 206** Offsite ATM
- 208** Products and Services
- 209** JG Summit Businesses and Partner Companies

# Our Company

The Parent Company - Robinsons Bank Corporation and its subsidiary - Legazpi Savings Bank are engaged in commercial and thrift banking activities. The principal activities of the Group include deposit-taking, lending, foreign exchange dealing, fund transfers and remittance servicing.

Robinsons Bank Corporation is 60 percent and 40 percent owned by JG Summit Capital Services Corp. (JCSC) and Robinsons Retail Holdings, Inc. (RRHI), respectively. The ultimate parent company of the Bank is JG Summit Holdings, Inc., one of the largest and most successful conglomerates in the Philippines, with business interests in air transportation, banking, food manufacturing, petrochemicals, real estate, hotels and property development, and telecommunications.

Robinsons Bank started as Robinsons Savings Bank in 1997. In 2002, the then Robinsons Savings Bank acquired the branches of ABN AMRO Savings Bank (Phils.). In 2010, the JGSHI and RRHI jointly acquired the controlling interest at The Royal Bank of Scotland (Phils.), which was later named as Robinsons Bank Corporation (a commercial bank). Then in May 2011, approval for merger was granted for the two (2) entities, the savings bank and the commercial bank, with Robinsons Bank Corporation as the surviving entity.

In December 2012, the Robinsons Bank acquired 100 percent controlling interest in Legazpi Savings Bank, Inc. With the acquisition, Legazpi Savings Bank became a wholly owned subsidiary of Robinsons Bank.





## Vision

We want to fulfill the financial needs of our customers, help them create and manage wealth, and be the best consumer bank in the country.

## Mission

To build a lasting relationship with our customers characterized by excellence, concern for the individual and integrity.

To respond to their banking needs by providing quality and innovative products and services.

To create leaders out of our employees within an environment that inspires growth, creativity, and a passion for excellence.

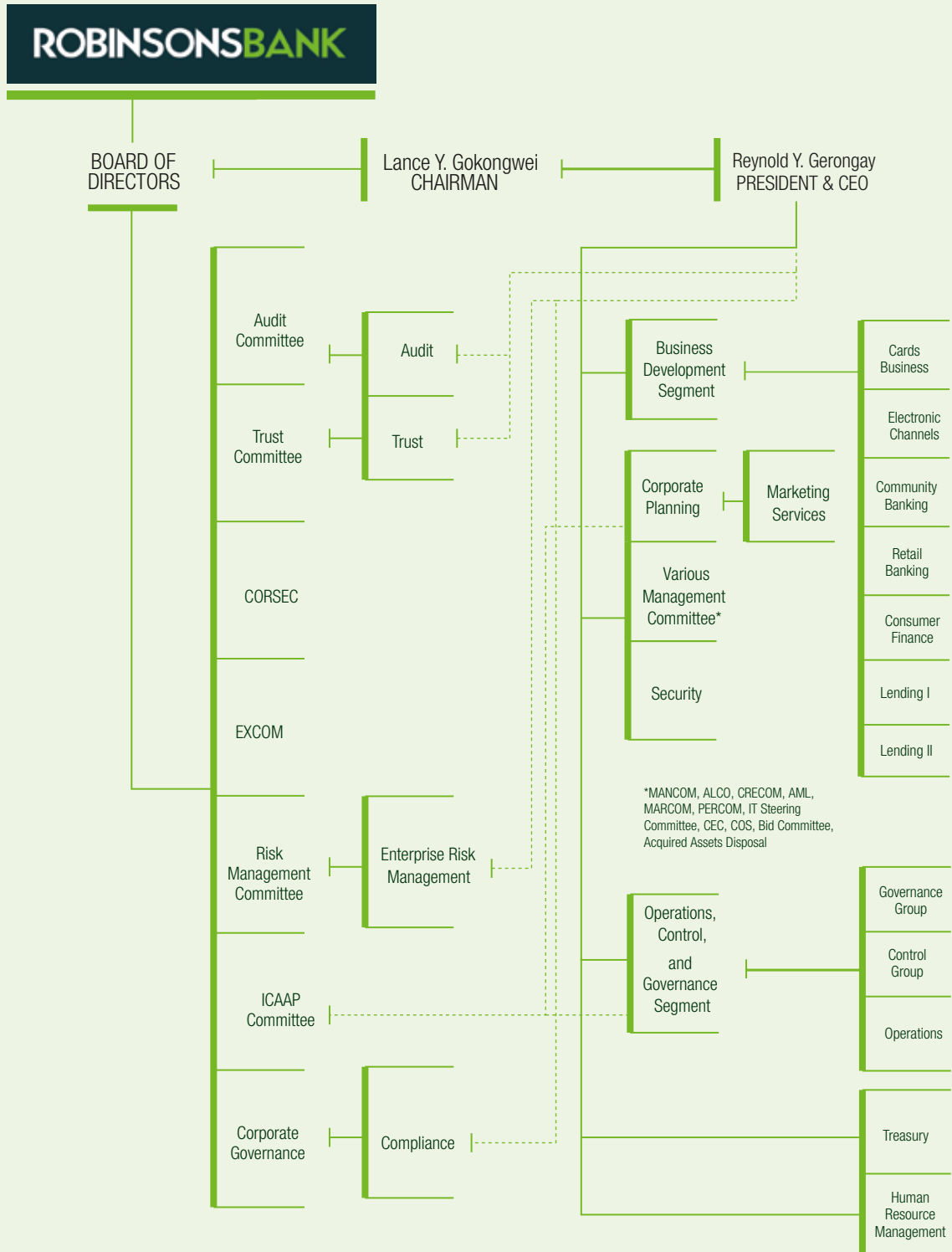
To safeguard the interests of our shareholders while optimizing return on investments.

To be the focus of financial synergy within the JG Summit group of companies & its business partners.

## Core Values

Concern for the Individual • Excellence • Leadership  
Teamwork • Integrity • Change

# Table of Organization



# Board of Directors



**Lance Y. Gokongwei**  
Chairman of the Board



**Frederick D. Go**  
Vice Chairman / Director



**Reynold Y. Gerongay**  
President & CEO / Director



**Robina Y. Gokongwei-Pe**  
Director



**Lisa Y. Gokongwei-Cheng**  
Director



**Patrick Henry C. Go**  
Director



**Robert S. Gaerlan**  
Independent Director



**Angeles Z. Lorayes**  
Independent Director



**David C. Mercado**  
Independent Director

\*\*\*David C. Mercado  
Appointed last 27 February 2014 Board of Directors (BOD) Meeting and replaced  
Mr. Danilo A. Alcoceba who resigned after the 22 January 2014 BOD Meeting



**Esperanza S. Osmeña**  
Independent Director



**Hermogenes S. Roxas**  
Independent Director



**Atty. Elaine G. Miranda-Araneta**  
Corporate Secretary

## Senior Advisory Board Members



**Johnson Robert G. Go, Jr.**



**Brian M. Go**



**Wilfred T. Co**

# Senior Officers



**Reynold Y. Gerongay**  
President & CEO / Director



**Angelito V. Evangelista**  
EVP – Chief Operating Officer



**Eric B. Santos**  
EVP – Chief Credit Officer



**Evie B. Abraham**  
SVP – Human Resource  
Management



**Ma. Regina N. Lumain**  
SVP – Treasury



**Dennis I. Paredes**  
SVP – Retail Banking



**Andro M. Yee**  
SVP – Community Banking



**Exequiel T. Tua**  
FVP – Chief Risk Officer



**Juanito Andres A. Henson**  
FVP – Lending Group 1



**Eric C. Macalintal**  
FVP – Chief Information  
Technology Officer



**Janette C. Gonzalvo**  
FVP – Credit Cycle Operations



**James D. Chua**  
FVP – Electronic Banking



**Romel D. Meniado**  
VP – Chief Compliance Officer



**Cynthia C. Bautista**  
VP – Chief Audit Officer



**Irma D. Velasco**  
VP – Comptrollership



**Rosario C. Marcelo**  
VP – Lending Group 2



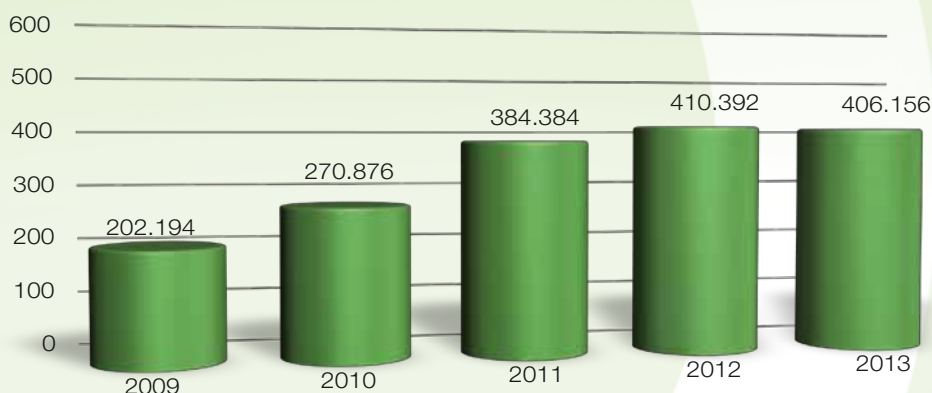
**Elizabeth P. Aquino**  
VP – Trust & Investment



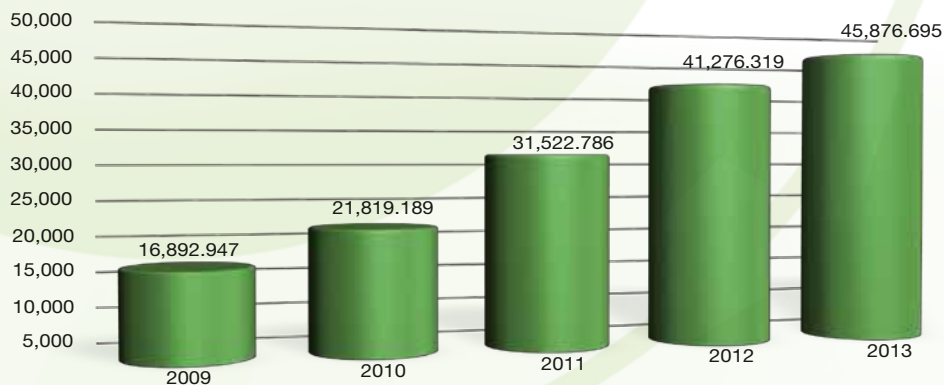
**Mykel D. Abad**  
President - Legazpi Savings Bank

# Financial Performance Highlights

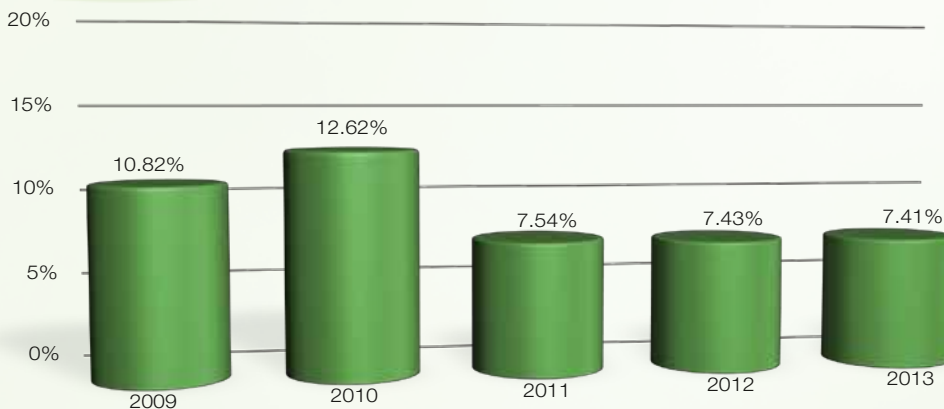
Net Income (in PHP million)



Total Resources (in PHP million)



Return on Ave. Equity





## Consolidated Performance Highlights

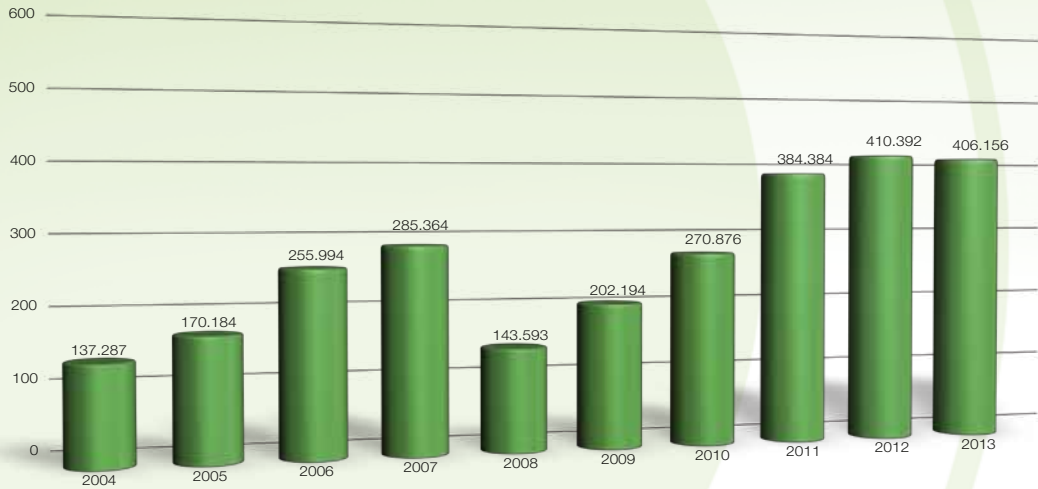
<b>FOR THE YEAR (In 000000 Pesos)</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Net Interest Income	1,169.861	1,170.474	1,599.700
Trading Gain	416.659	519.112	401.040
Other Income	146.473	179.206	296.835
Operating Expenses	1,153.454	1,328.976	1,739.495
Net Income	384.384	410.392	406.156
Net Comprehensive Income		329.331	(385.474)

<b>AS AT YEAR END (In 000000 Pesos)</b>			
Total Resources	31,522.786	41,276.319	45,876.695
Loan Portfolio - Net	15,978.705	18,379.244	21,909.280
Total Deposits	25,187.715	33,961.225	38,773.152
Capital Funds	5,355.293	5,672.607	5,287.133
NPL	422.610	897.380	878.278
NPL Fully Covered by Provisions	221.207	318.336	517.674
Total Loan Loss Provisions	417.320	520.580	517.674

<b>KEY INDICATORS</b>			
Cost to Income Ratio	66.6%	71.2%	75.7%
NPL Ratio (net)	1.2%	3.3%	1.7%
NPL Coverage	98.7%	58.0%	58.9%
Capital Adequacy Ratio	29.1%	26.2%	23.2%
Return on Average Asset	1.4%	1.2%	0.9%
Return on Average Equity	7.5%	7.4%	7.4%

# 10 Year Evolution

## Net Income

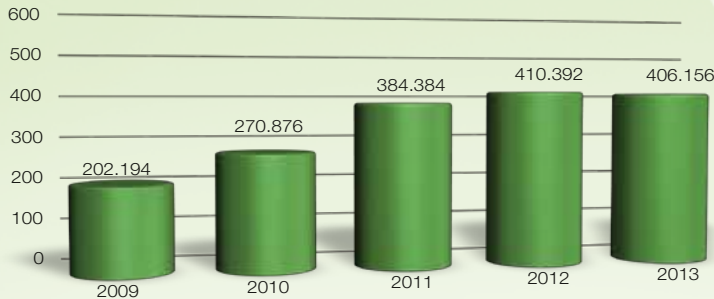


## Total Resources

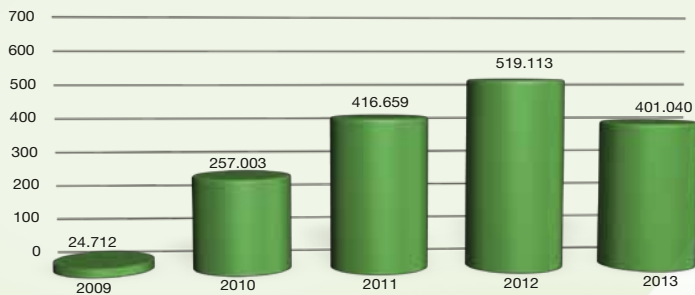


# Financial Review

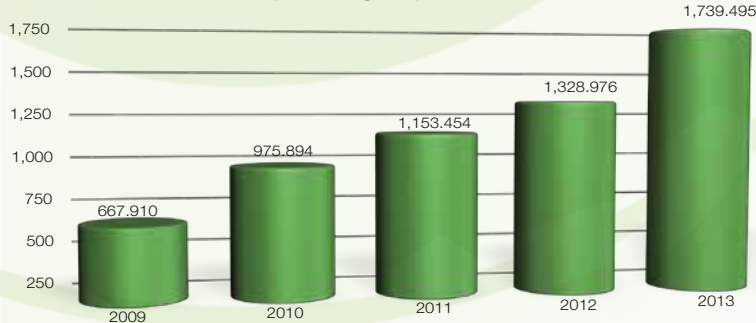
Net Income (in PHP million)



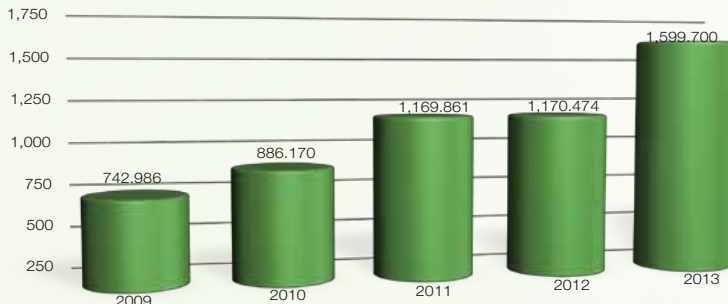
Trading Gain (in PHP million)



Operating Expenses



Net Interest Income (in PHP million)



## Income and Expenses

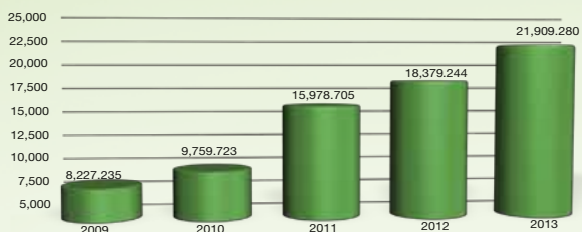
Higher interest income and lower interest expense drove up net interest income to **Php1.600 billion** in 2013. The figure is about 37 percent higher than the Php1.170 billion recorded last year. The resulting net interest margin, which is net interest income as a ratio of earning assets, increased to **3.96 percent** from 3.43 percent.

Non-interest income excluding trading gain increased by about 66 percent to **Php296.835 million** from Php179.206 million. Trading gain (inclusive of unrealized foreign exchange losses) dropped to **Php401.040 million** from Php519.113 million in 2012.

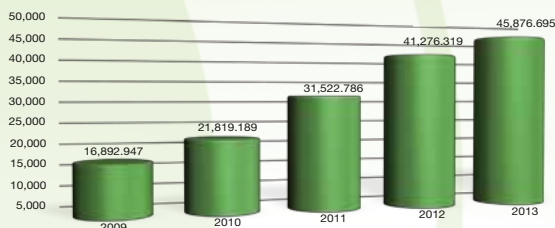
Operating expenses, composed of manpower, occupancy, and miscellaneous costs plus taxes and licenses, jumped to **Php1.739 billion** from Php1.329 billion in 2012. Because of higher operating expenses, net income was slightly lower from Php410.392 million in 2012 to **Php406.156 million** in 2013.

# Resources and Funding

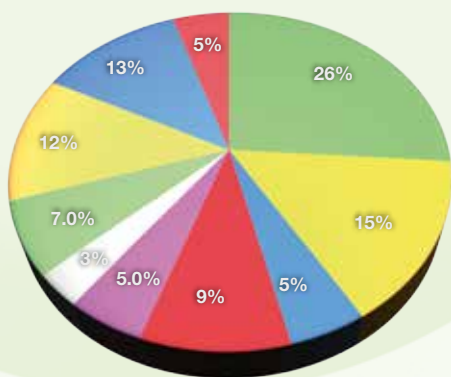
Loans (Net) (in PHP million)



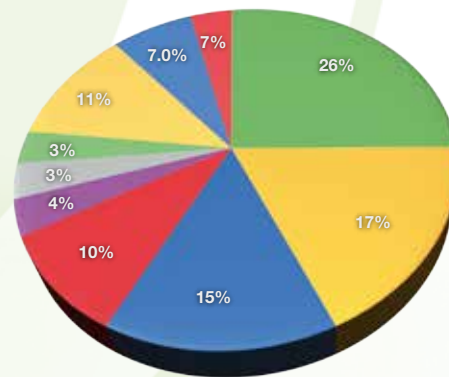
Total Resources (in PHP million)



2013



2012



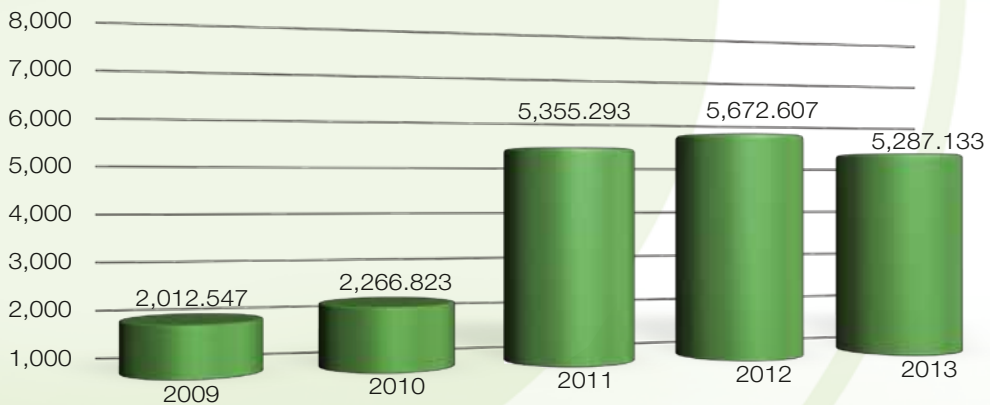
- Real estate, renting and business services
- Wholesale and retail
- Agriculture, huntinf and forestry
- Electricity, gas and water
- Construction
- Manufacturing
- Transport, storage and communication

Total resources at year-end 2013 were recorded at **Php45.877 billion**, an **increase of about 11 percent** over the past year's level. Loans outstanding, the most significant component of risk assets, registered **a growth of about 19 percent**, totaling to **Php21.909 billion** in 2013, compared to Php18.379 billion for the same period in 2012.

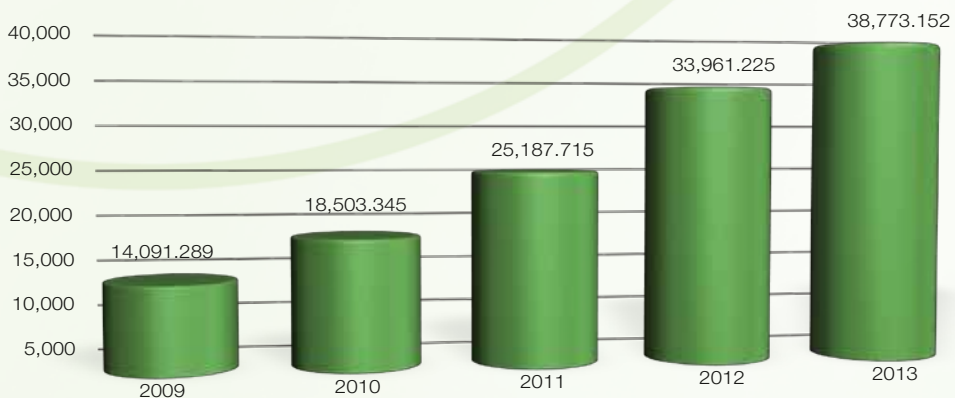
By industry breakdown, 26 percent of Robinsons Bank's loan portfolio is accounted by real estate. This is followed by loans to individuals for consumption and other community, social and personal activities at 25 percent, wholesale and retail at 15 percent, electricity gas and water at 9 percent and transport, communication and storage at 7 percent. Construction and agriculture both accounted for 5 percent, while manufacturing accounted for 3 percent.

By the end of year 2013, total deposits increased to **Php38.773** billion from Php33.961 billion in 2012. In terms of deposit mix, savings deposits accounted for the bulk at 59 percent, followed by demand deposits at 22 percent and time deposits at 19 percent. The Bank's level of capital remained strong. Stockholder's equity as of December 31, 2013 stood at **Php5.287 billion**. The drop in equity was due to unrealized loss on AFS investments amounting to Php630 million.

**Capital Funds (in PHP million)**

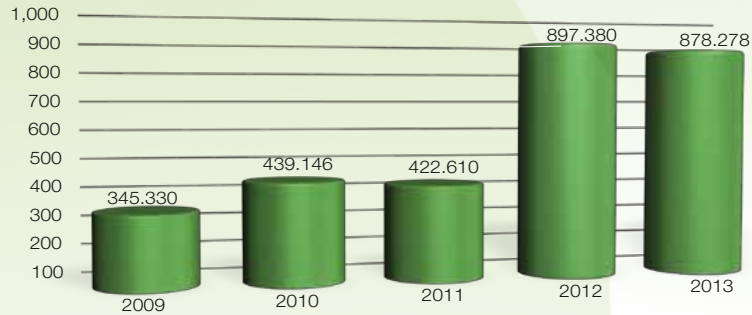


**Total Deposits (in PHP million)**

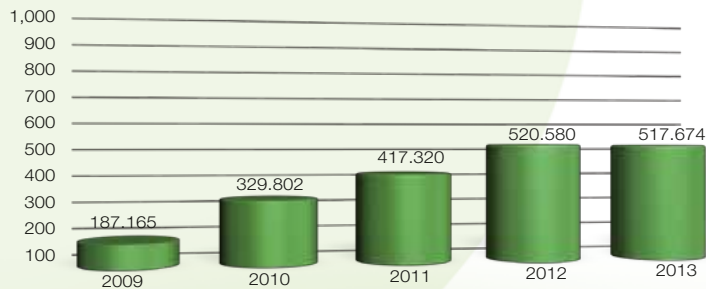


# Asset Quality

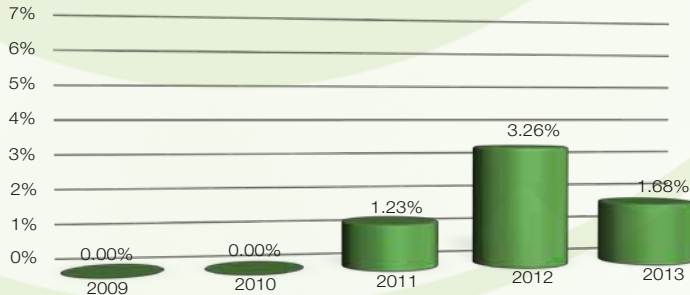
### Non Performing Loans



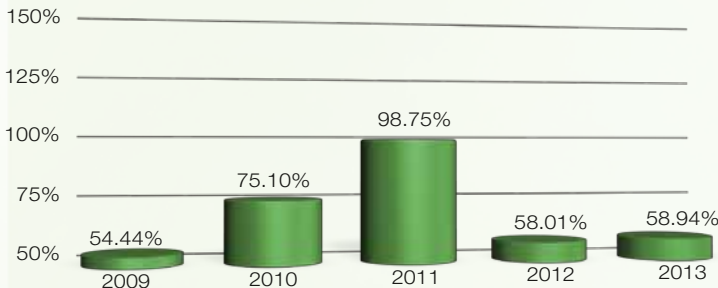
### Loan Loss Provisions



### Net NPL Ratio



### NPL Cover



The non-performing loan (NPL) portfolio based on the consolidated statement includes Php356.735 million NPL as a result of the ongoing housekeeping at Legazpi Savings Bank. The level of NPL in 2013 was reduced to **Php878.278 million** from Php897.380 million in 2012. Of the Php878.278 million NPL, Php517.674 million are fully covered by allowance for loan losses. Net of provisions, the non-performing loan ratio was at **1.7 percent** as of 2013, down from 3.3 percent in 2012.

Loan loss coverage ratio as of year-end 2013 was flat at **59 percent**, from last year's 58 percent.

# Robinsons Bank Corporation and Subsidiary

## Statements of Financial Position

	Consolidated		Parent Company		January 1, 2012 (As Restated -Note 2)
	December 31		December 31		
	2013	2012 (As Restated -Note 2)	2013	2012 (As Restated -Note 2)	
<b>ASSETS</b>					
Cash and Other Cash Items	₱1,143,258,839	₱1,038,282,061	₱1,109,208,879	₱987,867,163	₱701,098,433
Due from Bangko Sentral ng Pilipinas	11,437,995,107	8,106,584,476	10,287,995,577	7,350,141,875	5,547,421,010
Due from Other Banks	2,135,050,452	2,169,927,996	2,015,697,154	1,992,569,303	1,897,621,161
Interbank Loans Receivable	3,099,000,000	100,000,000	3,099,000,000	100,000,000	2,800,000,000
Derivative Asset	-	109,088,614	-	109,088,614	79,280,867
Financial Assets at Fair Value					
Through Profit or Loss	1,094,982,315	2,185,673,337	1,094,982,315	2,185,673,337	-
Available-for-Sale Investments	5,834,159,192	7,299,167,989	5,863,159,192	7,296,853,976	6,452,309,198
Held-to-Maturity Investment	75,000,000	-	75,000,000	-	-
Loans and Receivables	18,810,281,293	18,279,244,219	17,767,707,037	17,313,552,194	13,178,704,803
Investment in a Subsidiary	-	-	731,000,000	731,000,000	-
Property and Equipment	472,102,324	419,856,455	433,953,133	375,945,804	334,748,373
Investment Properties	239,616,938	236,068,078	98,695,983	64,033,816	55,401,286
Branch Licenses	949,650,182	944,250,182	329,650,182	324,250,182	321,850,182
Goodwill	244,327,006	244,327,006	-	-	-
Deferred Tax Asset - Net	-	-	99,543,511	81,852,671	77,286,519
Other Assets	341,271,020	143,848,469	329,847,460	139,395,249	82,214,187
	<b>₱45,876,694,668</b>	<b>₱41,276,318,882</b>	<b>₱43,335,440,423</b>	<b>₱39,052,224,184</b>	<b>₱31,527,936,019</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
<b>Deposit Liabilities</b>					
Demand	₱8,426,641,325	₱6,819,383,055	₱8,280,498,997	₱6,671,547,244	₱4,716,831,579
Savings	23,019,440,597	20,738,158,148	21,253,515,436	18,934,458,314	15,290,018,910
Time	7,327,070,074	6,403,683,926	6,869,679,656	6,321,907,552	5,180,864,242
	<b>38,773,151,996</b>	<b>33,961,225,129</b>	<b>36,403,694,089</b>	<b>31,927,913,110</b>	<b>25,187,714,731</b>
Manager's Checks	237,145,631	170,814,553	237,145,631	170,814,553	141,407,791
Income Tax Payable	6,346,776	202,617	3,226,328	202,617	12,230,098
Redeemable Preferred Shares	1,700,000	30,700,000	-	-	-
Deferred Tax Liability - Net	68,966,845	104,147,329	-	-	-
Accrued Expenses and Other	1,502,250,221	1,336,622,350	1,464,971,680	1,280,687,000	843,307,213
	<b>40,589,561,469</b>	<b>35,603,711,978</b>	<b>38,109,037,728</b>	<b>33,379,617,280</b>	<b>26,184,659,833</b>
<b>Equity</b>					
Common stock	₱436,835,000	₱436,835,000	₱436,835,000	₱436,835,000	₱436,835,000
Preferred stock	5,202,462,740	5,202,462,740	5,202,462,740	5,202,462,740	5,202,462,740
Surplus (deficit)	256,532,840	(128,124,096)	195,802,336	(128,124,096)	(534,843,706)
Surplus reserves	133,738,711	112,240,041	133,738,711	112,240,041	108,567,399
Remeasurement losses on retirement plan	(22,966,553)	(18,179,866)	(22,966,553)	(18,179,866)	(12,016,353)
Net unrealized gain (loss) on AFS investments	(630,810,436)	72,040,625	(630,810,436)	72,040,625	142,465,374
Cumulative translation adjustments	(88,659,103)	(4,667,540)	(88,659,103)	(4,667,540)	(194,268)
	<b>5,287,133,199</b>	<b>5,672,606,904</b>	<b>5,226,402,695</b>	<b>5,672,606,904</b>	<b>5,343,276,186</b>
	<b>₱45,876,694,668</b>	<b>₱41,276,318,882</b>	<b>₱43,335,440,423</b>	<b>₱39,052,224,184</b>	<b>₱31,527,936,019</b>

# Robinsons Bank Corporation and Subsidiary

## Statements of Income

	Consolidated		Parent Company	
	Years Ended December 31			
	2013	2012 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)
<b>INTEREST INCOME ON</b>				
Loans and receivables (Note 8)	<b>P1,620,114,438</b>	P1,305,401,341	<b>P1,364,091,796</b>	P1,305,401,341
Investment securities (Note 7)	<b>424,293,844</b>	494,994,362	<b>424,293,844</b>	494,994,362
Interbank loans receivable (Note 6)	<b>80,117,930</b>	93,855,154	<b>80,117,930</b>	93,855,154
Due from Bangko Sentral ng Pilipinas and other banks	<b>33,281,729</b>	21,694,751	<b>15,446,843</b>	21,694,751
	<b>2,157,807,941</b>	1,915,945,608	<b>1,883,950,413</b>	1,915,945,608
<b>INTEREST EXPENSE ON</b>				
Deposit liabilities (Notes 15 and 24)	<b>558,108,231</b>	745,471,441	<b>498,533,728</b>	745,471,441
<b>NET INTEREST INCOME</b>	<b>1,599,699,710</b>	1,170,474,167	<b>1,385,416,685</b>	1,170,474,167
Service fees and commission income (Note 22)	<b>200,454,214</b>	153,391,432	<b>178,229,021</b>	153,391,432
Service fees and commission expense (Note 22)	<b>41,133,695</b>	33,838,541	<b>40,046,934</b>	33,838,541
<b>NET SERVICE FEE AND COMMISSION INCOME</b>	<b>159,320,519</b>	119,552,891	<b>138,182,087</b>	119,552,891
Trading and securities gain - net (Note 7)	<b>413,107,206</b>	563,698,626	<b>413,107,206</b>	563,698,626
Foreign exchange loss - net	<b>(12,067,448)</b>	(44,586,390)	<b>(12,123,170)</b>	(44,586,390)
Miscellaneous (Note 22)	<b>137,514,448</b>	59,653,559	<b>106,741,270</b>	59,653,559
<b>TOTAL OPERATING INCOME</b>	<b>2,297,574,435</b>	1,868,792,853	<b>2,031,324,078</b>	1,868,792,853
<b>OPERATING EXPENSES</b>				
Compensation and fringe benefits (Notes 20 and 24)	<b>401,983,044</b>	356,115,436	<b>359,896,061</b>	356,115,436
Occupancy and equipment-related costs (Notes 21 and 24)	<b>226,937,938</b>	175,469,317	<b>211,323,418</b>	175,469,317
Taxes and licenses (Note 23)	<b>209,686,425</b>	165,053,309	<b>182,559,886</b>	165,053,309
Security, messengerial and janitorial	<b>190,620,940</b>	105,027,382	<b>180,110,439</b>	105,027,382
Depreciation and amortization (Note 10)	<b>163,861,185</b>	116,399,904	<b>143,319,500</b>	116,399,904
Provision for credit and impairment losses (Note 14)	<b>171,711,627</b>	118,542,209	<b>109,164,080</b>	118,542,209
Insurance	<b>92,553,662</b>	77,367,498	<b>86,272,994</b>	77,367,498
Communication	<b>38,676,398</b>	27,159,303	<b>34,339,769</b>	27,159,303
Entertainment, amusement, and recreation (Note 23)	<b>33,422,674</b>	38,890,905	<b>31,660,529</b>	38,890,905
Information technology	<b>28,588,001</b>	25,991,410	<b>28,482,004</b>	25,991,410
Management and professional fees	<b>8,082,549</b>	7,455,810	<b>5,573,854</b>	7,455,810
Miscellaneous (Note 22)	<b>173,370,070</b>	115,503,579	<b>150,538,802</b>	115,503,579
<b>TOTAL OPERATING EXPENSES</b>	<b>1,739,494,513</b>	1,328,976,062	<b>1,523,241,336</b>	1,328,976,062
<b>INCOME BEFORE INCOME TAX</b>	<b>558,079,922</b>	539,816,791	<b>508,082,742</b>	539,816,791
<b>PROVISION FOR INCOME TAX</b> (Note 23)	<b>151,924,316</b>	129,424,539	<b>162,657,640</b>	129,424,539
<b>NET INCOME</b>	<b>P406,155,606</b>	P410,392,252	<b>P345,425,102</b>	P410,392,252

See accompanying Notes to Financial Statements.

# Robinsons Bank Corporation and Subsidiary

## Statements of Comprehensive Income

	Consolidated		Parent Company	
	Years Ended December 31			
	2013	2012 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)
<b>NET INCOME</b>	<b>₱406,155,606</b>	₱410,392,252	<b>₱345,425,102</b>	₱410,392,252
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR NET OF TAX</b>				
Items that may not be reclassified to profit or loss				
Change in remeasurement loss on retirement plan (Note 2 and 20)	(4,786,687)	(6,163,513)	(4,786,687)	(6,163,513)
Items that may be reclassified to profit or loss				
Change in net unrealized loss on AFS investments (Note 7)	(702,851,061)	(70,424,749)	(702,851,061)	(70,424,749)
Translation adjustment	(83,991,563)	(4,473,272)	(83,991,563)	(4,473,272)
	(791,629,311)	(81,061,534)	(791,629,311)	(81,061,534)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(₱385,473,705)</b>	₱329,330,718	<b>(₱446,204,209)</b>	₱329,330,718

See accompanying Notes to Financial Statements.

# President's Report



The Philippine economy was one of the global star performers in 2013 with growth accelerating to 7.2 percent, an improvement from the 6.8 percent achieved in 2012. The result was realized despite the natural disasters that the country experienced in 2013.

The services sector continued to be the major contributor to growth in 2013, with the contribution of industry increasing over the years. In 2013, the services and industry sectors expanded by 7.1 percent and 9.5 percent, respectively.

On the expenditure side, growth was supported by the robust spending of households, followed by fixed capital formation, driven by stronger growth in investments in durable equipment and construction. Private spending was shored up by the continuous influx of remittances from overseas Filipino workers (OFWs). Remittances from OFWs reached a record high of \$25.1 billion in 2013, 7.6 percent higher than previous year's level. Export of services, which includes the business process outsourcing (BPO) industry, remained robust.

The country's strong macroeconomic fundamentals were marked by low and stable inflation, low interest rates, and a stable financial sector.

The announcement of an investment rating upgrade in 2013 was all but expected. Fitch was the first to upgrade the Philippines in March, with S&P following in May. The country's ascent to investment rank was completed in October when it won a rating upgrade from Moody's Investors Service.

Interestingly, despite the strong macro-economic fundamentals and three investment rating upgrades, the Philippine Stock Exchange (PSE) only managed to gain 77 points from the previous year, finishing 2013 at 5,889.83, making it its worst performance since 2008. The first months saw the PSE registering all-time highs, with the index up by as much as 27% at a record high 7,400 in May. The rise was disrupted midway through 2013 when the US Fed announced it was winding down its bond-buying program, which spooked investors away from equities markets, including the PSE.

The country's level of foreign exchange reserves reached US\$83.7 billion as of end-December 2013. While the end-2013 GIR of US\$83.7 billion was slightly below 2012's US\$83.8 billion, it remained ample to pay for 12 months of goods imports and payments of services and income. Alternatively, the reserves would allow the country to pay 8.4 times over its short-term foreign debt based on original maturity.

The peso closed at 44.395 against the US dollar on the last trading day of 2013, depreciating by about 8 percent from 41.050 reported the previous year. The peso's depreciation came about just as the US Fed mulled over the tapering of stimulus funds injected into the US economy.

Full year inflation averaged 3 percent, which was at lower bound of the government target range of 3 to 5 percent. Spike in prices was however noted in December as inflation rate increased to 4.1 percent, its highest since December 2011 as a result of devastation of typhoon Haiyan, or Yolanda. The manageable inflation together with a robust economic growth has allowed the central

bank to keep key policy rates steady throughout 2013. The BSP's overnight borrowing rate and overnight lending rate stood at 3.5 percent and 5.5 percent respectively, at the end of the year.

The Philippine banking system remained stable and resilient. Philippine banks remained in compliance with the reforms that have been implemented, which included improvements in governance structures and risk management systems, and the further strengthening of bank capitalization through Basel III.

Supported by a low interest environment, lending of commercial and universal banks grew to PhP4.257 trillion. Consumer loans led by residential real estate loans, auto loans and credit card collectibles reached PhP474.436 billion. Asset quality improved, with the NPL ratio declining to 2.3 percent.

## Milestone Achievement

Grand highlight of 2013 was the acquisition of Legazpi Savings Bank (LSB). Legazpi Savings Bank was established in 1976 and through the years, has built a strong regional customer base with its network of 11 branches in the Bicol Region.

While the green light to acquire a controlling interest in LSB was secured from the Monetary Board last December 26, 2012, effective control and management was realized in January 2013.

After the take-over, LSB's newly elected Board of Directors established board level committees to foster good governance. The new management formulated strategic initiatives aimed at turning the bank around the soonest possible time.

## Financial Viability

Robinsons Bank recorded a consolidated net income of Php406.2 million in 2013. This was slightly lower than the P410.4 million in 2012. Total resources expanded by 11.2 percent to Php45.877 billion from Php41.276 billion a year ago. The expansion in resource base was propelled by the robust growth in loan generation

and deposit taking activities. Loan portfolio grew by 19.2 percent to Php21.909 billion, while total deposits grew by 14.2 percent, ending 2013 at P38.773 billion.

Despite historic low interest rates, the Bank posted interest income of Php2.158 billion, which is about 13 percent higher than the Php1.916 billion recorded in 2012. Interest expense decreased by about 25 percent from Php745.471 million in 2012 to Php558.108 million in 2013. The year ended with net interest income at Php1.600 billion, which is about 37 percent higher than the Php1.170 billion recorded the previous year.

The increase in service fees and commissions resulting from an expanding credit customer base and aggressive collection particularly on the part of Legazpi Savings Bank lessened the effect of lower interest rates. Net service fees and commission income in 2013 grew by 33 percent from Php119.553 million the previous year to Php159.321 million.

## Asset Development

The continuing low interest rate regime was the main driver in intensifying our consumer lending activities in 2013. As the interest rates sagged, the Bank found a need to prop up our balance sheet with a higher yielding loan portfolio.

The drop in interest rates during the first half of the year also enabled the Treasury Group to capitalize on trading gains which allowed the bank to post trading gains (net of foreign exchange revaluation loss) of Php416.659 million. The figure was lower than the previous year's Php519.112 million as the interest rates started to inch up during the second half of the year.

The Trust and Investment Group continued to play its role as wealth manager for investment management, trust and other fiduciary accounts. Assets held are administered in accordance with BSP Trust Regulations' allowable investments such as government securities, deposits and tier 2 notes, corporate bonds, and equities. In 2013, banks faced a major challenge with the phase out of the BSP's special deposit accounts (SDAs).

Under BSP Memorandum 2013-021, trust departments had to remove 30 percent of singular investment management accounts (IMA) parked on the SDA by July, while a complete phase-out was carried out in November. Total assets held under trust stood at Php 4.989 billion as of year-end 2013, down from Php 13.442 billion the previous year and in line with the average percentage drop in trust assets of the commercial banking industry for the year.

Despite the regulatory challenges, the Trust and Investments Group continued to actively offer and expand its investment portfolio of peso and dollar prime corporate issuances. It participated in more than ten new bond issues for the year and also accredited the top two biggest mutual fund providers for investment opportunities. Through this, it was able to grow its long-term trust assets by P622 Million and considerably improved the account profile of its trust clientele from short-term to longer duration.

## Network Optimization

A complementary distribution network composed of “Clicks and Bricks” is a key element of our delivery strategy. New branches were opened to provide the necessary link to our customer base and better access to our products and services. As of December 2013, our branch network totalled seventy-nine (79). This number is on top of the eleven (11) branches of Legazpi Savings Bank.

The network optimization effort was enhanced with the acquisition of LSB, as Robinsons Bank was awarded thirty-one (31) branch licenses in restricted areas.

Fourteen (14) branches were opened in 2013, namely:

1. Chino Roces, Makati \*
2. Paseo de Roxas, Makati \*
3. Sedeño, Makati \*
4. P. Rada, Manila \*
5. D. Guevara, Mandaluyong \*
6. E. Rodriguez Ave. Quezon City \*
7. NS Amoranto Ave, Quezon City \*
8. Roosevelt Ave, Quezon City \*
9. West Ave, Quezon City \*

10. Better Living, Parañaque \*
11. Shaw Blvd, Pasig \*
12. Ozamiz, Misamis Occidental
13. Kabankalan, Negros Occidental
14. Calapan, Oriental Mindoro

### *Branches in restricted areas*

Our branch in Robinsons Tagaytay was relocated from its previous site - space 1-001 to its new site - space 2-00210.

In the aftermath of Super Typhoon Yolanda (Haiyan), our Tacloban branch along with one (1) onsite and two (2) offsite ATMs located within the city had to close pending the reconstruction of the mall and re-introduction of security forces.

While the branch network remains the foremost contact and distribution point for our clients, the branch delivery channel is augmented by alternative delivery channels for 24/7 access to banking services.

In 2013, we installed 13 onsite ATMs and 12 offsite ATMs. The offsite ATMs were deployed in highly accessible locations frequented by consumers. These locations are:

1. Domestic Airport 2
2. LSB Naga
3. Ministop Bansalangan
4. Ministop Ibarra
5. RSC Karangalan
6. RSC Meycauyan
7. RSC Molo
8. RSC Perdices
9. RSC Otis
10. RSC Tandang Sora
11. St Francis Square
12. URSUMCO

Our ATM network as of year-end stood at 150.

In addition to strengthening our ATM network in 2013, we continued to improve our alternative delivery channels to encourage customers to shift their transactions from branch banking to internet banking.

RWeb (retail internet banking) and CashWeb (corporate cash management system) allow

customers to bank at their own convenience and time. These alternative channels provide the updated information on account portfolio balances, transaction history, download statement of accounts.

RWeb allows users to reorder checkbooks, pay bills, pay loans and perform intrabank and interbank fund transfers. It includes a feature that allows users real-time account opening, deposit and withdrawal of time deposits and savings accounts.

The Bank's CashWeb continued to be enhanced to assist corporate clients manage their accounts more efficiently. CashWeb provides the flexibility to corporate customers to schedule and control payments, monitor collections, reconcile accounts, and manage funds more efficiently.

In 2013, Robinsons Bank ATM transactions increased 7% while RWeb and CashWeb users grew by 30% and 23% respectively.

## Technology Management

A rapidly growing commercial bank requires a technology that can support the growth in business and enable an environment that fosters innovation. This demands a stringent re-assessment of the capabilities of our existing core banking system requirements.

The core banking system replacement project, which includes the treasury and trade finance modules, was well underway, having completed the user acceptance testing and end user training. The new treasury module, once completed, allows straight through processing from Front Office origination to Middle Office control and Back Office confirmation and settlement.

The new system is expected to simplify transaction handling, improve turn-around time and customer experience, fast track development and time-to-market of new products and improve controls and financial reporting.

Also in 2013, the Bank completed its credit scorecard modeling project and the development of a

new loan origination and decisioning system and debt management system. Both the loan origination and decisioning system and debt management system were in production as of year-end 2013. These enhancements are expected to provide the Bank the muscle to provide on time decision for loan approvals and debt collection, while enabling proper underwriting of credit risks.

## Organizational Development

Investment in developing the skills of the employees continues to be a focus area for the Bank. In 2013, the Bank graduated its third batch of candidates from its Management Development Program (MDP) for prospective junior officers for eventual deployment to the executive offices and a batch of Junior Management Trainee Program (JMTP) – a one year development program for honor graduates from top schools with the purpose of molding young intelligent minds to join the core of branch and executive office officers.

Training programs pertaining to the new core banking system, customer service, AMLA and risk management were the key focus learning areas of the organization.

In addition to training and learning activities, the Bank also participated in the Pulse Employee Engagement Survey which is based on the Towers Watson model of employee effectiveness. Already on its fourth year, the survey included sixteen (16) questions that cover Leadership, Job Clarity, Pay and Performance, Career Growth, Company Culture, Empowerment, Developmental Opportunities and Quality Orientation. The underlying principle behind this survey is that highly engaged employees are effective employees. As in the previous three (3) years, employee engagement based on the survey was rated high.

Employee engagement, motivation, recognition and remuneration are critical elements in retaining talented and performance driven employees. Employee performance is evaluated based on specific key performance indicators including financial, customer, process efficiency and learning and growth indicators.

Together with the compensation and employee incentive and benefit package, the performance evaluation criteria are reviewed thoroughly and calibrated to keep it attuned to prevailing environment and at par with industry standards.

The Bank believes that the human capital factor required to propel the bank towards Vision 2020 is firmly in place and rooted in the heart of each RBanker.

## Future Outlook

Most estimates suggest the economy will grow at around 5 to 6.5 percent in 2014. The projection is based on expectations of lower consumption growth partially offset by reconstruction spending. There are several downside risks to Philippine growth - "slower global recovery, financial market volatilities following the tapering of the U.S. stimulus program, potential bubbles in the real estate sector, slower post-typhoon reconstruction, and domestic reform lags."

Against this backdrop and the expected increase in interest rates, we are aware that more hard work remains as we move further forward, and onwards to our "Vision 2020" Robinsons Bank will continue to pursue its expansion and growth objectives through organic build up, as well as via acquisitions whenever the opportunity arises.

The Bank's network optimization program continues in 2014 with the planned expansion of our branch network to one hundred fourteen (114) and ATM network to one hundred ninety eight (198) ATMs. Several branches are up for either relocation or renovation.

With the completion of the core banking system, loan origination and decisioning system and debt management system, we can concentrate on growing our consumer loan portfolio. While the new system is expected to help in weeding out poor credit risks from the good ones, we will continue to update our credit policies and procedures to reign in on the levels of NPL.

Focus on controls will be heightened in order to minimize, if not eliminate fraud incidence and losses. Risk containment shall continue to

be a cornerstone objective, which will require the strengthening of risk awareness and communication across the bank to cover all risk pillars under the Basel III. Corollary to this, and in line with the ever evolving regulatory environment, further enhancement of the compliance culture within the organization shall be pursued.

To minimize ATM related fraud, the Bangko Sentral ng Pilipinas issued **BSP Circular 808**, mandating that the entire payment card network be migrated to EMV by **01 January 2017**. The Bank will implement the EMV migration ahead of the BSP deadline. The migration is expected to be completed within 9 months to 12 months. The ATM switch version upgrade is a pre-requisite for the migration project.

With the objective of achieving service excellence and scale, the Bank will continue its course of acquiring talents and manpower development to support its long term objectives.

The Bank will deepen its bench of talents as it infuses resources for the expansion of its management trainee pool. This endeavor not only fills in workforce gaps but more importantly ensures succession planning.

On its 16<sup>th</sup> year, the Bank is stronger than ever, as it expects to track higher growth trajectory.

For LSB, Robinsons Bank is expected to continue its housekeeping oversight as LSB tackles the twin challenges of completing the move to its new core banking system and cleaning up its balance sheet.

In closing, on behalf of all the officers and employees of Robinsons Bank, I would like to thank the Board of Directors for their trust and confidence in putting us at the helm and at the forefront of our new commercial bank. Now, more than ever, we shall take advantage of your counsel and wisdom so that together we can confidently forge ahead, and chart our direction towards our long term goals and objectives.



**REYNOLD Y GERONGAY**  
President and CEO

# Risk Management

## Overall Risk Management Policy

The major risks inherent to the Group's operations are credit, market and operational. In addition and considering the Group's assets and liability structure, the other attendant risks also include credit concentration, interest rate risk in the banking book and liquidity risks.

The overall risk management policy is to ensure that risks taken are within the Group's risk appetite, which is assessed yearly considering earnings target, risk capacity (capital adequacy), regulatory standards, strategic initiatives and direction set by the Board of Directors. The Group's risk management process involves risk identification, quantification, proactive monitoring and control through established process, policies, guidelines, measurement models and limits, among others.

The Group recognizes that risk management is the responsibility of the entire organization. Accordingly, all business units are mandated to manage risks relevant to their own operations. This is undertaken in conjunction with the specialized entities within the Parent Company that perform certain risk management functions.

## Risk Exposure and Assessment

### Credit Risk

This entails the risk that one party to a financial transaction will fail to honor an obligation and cause the Bank to incur a financial loss.

1. Risk Management Objective

To maximize return on risk-adjusted capital of the Bank by maintaining a credit risk exposure within defined parameters including asset quality and portfolio mix, among others.

2. Strategies, Processes and Measurement

For commercial loan origination, the Bank uses the Internal Credit Risk Rating System (ICRRS) in rating all commercial loan accounts with total assets of at least P15MM as required under BSP Circular 439. A credit rating model for loan accounts with asset size below P15MM will soon be developed in order to have a complete and comprehensive credit rating for consumer lending.

The Internal Credit Risk Rating System (ICRRS) is a good summary indicator of risk for individual credit exposures of the Bank. It offers a structured format to collate and analyze customer data so as to arrive at a decision on the borrower's risk profile. The ICRRS is intended to provide the management of the financial institution with a structure to define the corporate credit portfolio.

The Scoring System of the revised ICRRS template is as follows:

Rating	Categories	Description
1	Excellent	Lowest probability of default; exceptionally strong capacity for financial commitments; highly unlikely to be adversely affected by foreseeable events.
2	Super Prime	Very low probability of default; very strong capacity for payment of financial commitments; less vulnerable to foreseeable events.
3	Prime	Low probability of default; strong capacity for payment of financial commitments; may be more vulnerable to adverse business/economic conditions.
4	Very Good	Moderately low probability of default; more than adequate capacity for payment of financial commitments; but adverse business/economic conditions are more likely to impair this capacity.
5	Good	More pronounced probability of default; business or financial flexibility exists which supports the servicing of financial commitments; vulnerable to adverse business/economic changes.
6	Satisfactory	Material probability of default is present, but a margin of safety remains; financial commitments are currently being met although the capacity for continued payment is vulnerable to deterioration in the business/economic condition.
7	Average	Greater probability of default which is reflected in the volatility of earnings and overall performance; repayment source is presently adequate; however, prolonged unfavourable economic period would create deterioration beyond acceptable levels.
8	Fair	Sufficiently pronounced probability of default, although borrowers should still be able to withstand normal business cycles; any prolonged unfavourable economic/market conditions would create an immediate deterioration of cash flow beyond acceptable levels.
9	Marginal	Elevated level of probability of default, with limited margin; Repayment source is adequate to marginal.
10	Watch List	Unfavourable industry or company specific risk factors represent a concern, financial strength may be marginal; will find it difficult to cope with significant downturn.
11	Special Mention	Loans have potential weaknesses that deserve close attention; borrower has reached a point where there is a real risk that the borrower's ability to pay the interest and repay the principal timely could be jeopardize due to evidence of weakness in the borrower's financial condition.
12	Substandard	Substantial and unreasonable degree of risk to the institution because of unfavourable record or unsatisfactory characteristics; with well-defined weakness(es) that jeopardize their liquidation. e.g. negative cash flow, case of fraud.
13	Doubtful	Weaknesses similar to "Substandard", but with added characteristics that make liquidation highly improbable.
14	Loss	Uncollectible or worthless.

To comply with regulatory mandate, the Bank has contracted an independent auditing firm to conduct an independent external validation of the ICRRS. Considering the result of validation, the ICRRS will be enhanced.

For consumer loans, the Bank has launched FICO (Fair Isaac Company) credit scoring models. A FICO credit score card is a learning model that takes into consideration the demographics and behavior of a loan portfolio. It is initially available for motorcycle financing and personal loan financing. Soon, it will be used also for other consumer loan products including housing and auto, among others. While FICO is not yet utilized for the other consumer products, loans shall continue to be evaluated based on defined RAC (risk acceptance criteria).

### 3. Structure and Organization

The responsibility of the credit risk management function rests upon the following bodies:

- a. Risk Management Committee (RMC) – It is tasked to develop and provide oversight on the credit risk management program of the Bank.
- b. Credit Committee (CRECOM) - The Credit Committee of the Bank has been created to provide the strategic framework that would govern the loan/credit activities of the Bank, manage the risk of loans in general, assure the safety of depositors' money, earn sufficient returns of the loan portfolio of the Bank, preserve the capital/deposit of stakeholders, maintain a healthy loan portfolio and enable customers/partners to prosper.
- c. Enterprise Risk Management Unit (ERMU) - The ERMU is in charge of the implementation and execution of the Risk Management Plan as approved by the RMC. ERMU makes recommendations and submit reports to the RMC on risk management matters affecting the Bank. ERMU coordinates with the various units (e.g., FRU and CorPlan) of the Bank in monitoring the established credit risk limits and performance of each product.

Credit Evaluation Department (CED) - The Credit Evaluation Department implements the pre-approval review of all loan accounts and all collection efforts for all past due accounts. Credit Cycle likewise submits its reports to senior management on a periodic basis. It also acts as the independent credit risk control unit which handles the review of Credit Applications (CAs) for renewal and new commercial.

- d. Financial Reporting Unit (FRU) - The FRU is the unit that monitors the Bank's SBL and also provides information on industry exposures and large exposures.

### 4. Scope and Nature of Risk Reporting

ERMU is responsible in preparing the Credit Risk Reporting Package to monitor and report the Bank's credit risk profile.

The Credit Risk Reporting Package is submitted to the Bank's Management Committee (MANCOM), Risk Management Committee and the Board of Directors (BOD) on a regular basis. The report covers the following: Portfolio Mix; Risk Appetite and Tolerance; Loans Delinquency per Bucket; NPL Trend; Large Exposure Monitoring; SBL Monitoring; and Deviation Monitoring, among others.

### 5. Policies for Mitigating Risk

To mitigate credit risks, the Bank has established relevant policies covering product approval process, loans originations, product manual, credit evaluation, credit review and loan documentations, among others.

On a yearly basis, the Bank set specific limits that include: loan portfolio target portfolio mix; key performance indicators (NPL, PDR, ROPA cover, etc.) and deviation limits.

To proactively manage risk, ERMU undertakes PQR (portfolio quality review) both for consumer and commercial loan products. The PQR is a detailed analysis of the loan portfolio, showing portfolio distribution and performance across various demographics.

The highlights of the PQRs are discussed and presented to the loan originating units, GRECOM and the RMC. The results of the deliberation are then used to improve existing products, design new products, define new market strategies, formulate action plans on asset quality management as well as calibration of existing policies.

ERMU regularly monitors the level of deviations approvals as against the set thresholds for each deviation level. The performance of the deviated accounts is compared to performance of those accounts without deviations and to the overall product portfolio as well. Discussions are held with the lending units and credit cycle whenever the set deviation caps are breached.

## **Credit Concentration Risk**

Concentration Risk is the risk faced by the Bank when a number of counterparties are engaged in similar activities or business industries, activities in the same geographic region, or have similar economic features.

### 1. Risk Management Objective

To identify, measure, and control concentration risks inherent in the Bank's loan originations or embedded in its credit loan portfolio within limits set by the BOD.

### 2. Strategies, Processes and Measurement

The Bank monitors credit concentration by SBL (single borrower limit), group large exposures and individual exposures as well as credit concentration per industry.

Under the Bank's Large Exposure & Credit Concentration Policy, the Bank observes 20% of the Bank's adjusted capital as Internal Single Borrower's Limit (ISBL) for all borrower types.

On the other hand, industry concentration and top borrowers concentration are covered in details in the yearly ICAAP of the Bank. Sectoral concentration index and individual concentration index are derived using the guidelines for concentration risk published by the Bank of Spain.

Under the Bank of Spain guidelines for concentration risk, the Bank uses the simplified option in computing the capital charge for credit concentration risk. This option involves the computation of the Sectoral Concentration Index (SCI) of the Bank's credit portfolio. The SCI may be obtained using the following formula:

$$\alpha = \frac{\sum x^2}{(\sum x)^2} \times 100$$

*Source: Bank of Spain*

Where X is the amount of risk exposure to each sector i.e. the risk weighted assets for a particular sector.

<b>Sectoral Concentration Index (SCI)</b>	<b>SCI Multiplier</b>
0 < SCI <= 12	0.00
12 < SCI <= 15	0.02
15 < SCI <= 20	0.04
20 < SCI <= 25	0.06
25 < SCI <= 100	0.08

If the SCI is greater than 12, there will be an additional capital charge by multiplying the RWA of loans and receivables capital requirements to the corresponding multiplier below:

For the individual concentration index (ICI), the following formula is used:

$$\beta = \frac{\sum x^2}{(\sum x)^2} \times \frac{\sum x}{\sum y} \times 100 = \frac{\sum x^2}{\sum x \sum y} \times 100$$

Source: Bank of Spain

Where X is the total direct investment to each borrower or group (in the list of top 1000 borrowers) and  $\sum y$  is the Bank's total direct risk exposure (including overall loans and receivables).

<b>Individual Concentration Index (SCI)</b>	<b>ICI Multiplier</b>
0 < ICI <= 0.1	0.00
0.1 < ICI <= 0.2	0.02
0.2 < ICI <= 0.4	0.04
0.4 < ICI <= 1.0	0.06
1.0 < ICI <= 100	0.08

### 3. Structure and Organization

The following units are involved in managing credit concentration risk:

- FRU – Provides the information on large exposures (group and individual) single borrower's limit (SBL) on a periodic basis;
- ERMU – Includes large exposure in its risk reporting package. Does credit stress testing on large exposures, industry and economic activity.
- CRECOM – Evaluates credit proposal considering issue on concentration risk and endorses to BOD for decision.
- BOD – Deliberates and decides on the credit proposal.

### 4. Scope and Nature of Risk Reporting

The FRU provides the SBL report on a daily basis. On the other hand, the ERMU includes its report on group and individual large exposures to the MANCOM on a weekly basis and to the Board/RMC on a monthly basis. Result of credit stress testing is also reported to the RMC on a regular basis.

## 5. Policies for Mitigating Risk

In order to mitigate risk, the Bank sets its internal SBL (ISBL) at 20% of its qualifying capital versus the 25% BSP-imposed SBL. The 5% is a cushion or allowance to absorb market volatility that affects the qualifying capital of the Bank.

Concentration risk limits on economic activity are also set yearly. As part of the ICAAP, assessment is performed to derive the sectoral and individual concentration index and computes for capital buffer on a yearly basis.

## **Market Risk**

Market risk is defined by the Bank as the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. It is the exposure to the uncertain market value of a portfolio due to price fluctuations. This risk arises from market-making, dealing, and position-taking in interest rate, foreign exchange, equity and commodities markets. Market risk is present in both trading and non-trading activities.

### 1. Risk Management Objective

To identify, measure, and control risks arising from changes in the value of traded portfolios of financial instruments that arises from market-making, dealing, and position-taking in interest rate, foreign exchange, equity and commodities markets.

### 2. Strategies, Processes and Measurement

The Bank considers the following factors in setting up the market limits: business prospects, present market conditions, expected returns and budget for the year, among others. It is the responsibility of the risk-taking personnel to request or renew market risk limits. The limits are approved by the Board of Directors through the Risk Management Committee.

The Board of Directors has approved the following set of risk control limits that are intended to prevent over-trading, excessive concentration, and to limit financial loss arising from the Bank's exposure to market risk.

- a. **Aggregate Control Limits** – This limit refers to the boundary limits and loss limits around the business activities other than VAR and Stop Loss limits. Aggregate control limits would include, for example, permitted instruments and currencies, volume limits, and other similar limits.
- b. **Value-at-Risk Limits (VaR)** - VaR measures the potential loss of value resulting from unlikely, adverse event in the normal market environment in a specified period of time within a specified probability of occurrence. It is a measure of likely earnings volatility for marked-to-market portfolios.

VaR is used to alert the senior management whenever the potential for losses in the Bank's trading portfolio exceeds tolerable levels. Because the VaR measure is tied to market volatility, it gives an immediate "feel" for the amount of risk in a portfolio especially in dynamic and volatile market environments. It therefore allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with its risk philosophy and appetite.

- c. Stop Loss and Loss Alert Limits – These limits are pre-determined level of losses within a defined time period (month-to-date or year-to-date), set as a function of the tolerable Value-at-Risk and whose effect on capital adequacy is given due importance.
- d. Weighted Average Modified Duration - The portfolio modified duration is a strategic tool used to model portfolio risk. To operate modified duration as a risk management tool, it is important to apply it on the overall portfolio as well as on the individual securities comprising the portfolio. The goal is to control excessive losses beyond the calculated modified duration.
- e. Off-Market Rate Tolerance - Off-market rate tolerance limit is set up to mitigate the operational risk that dealers may consummate deals at an off-market rate even after carefully checking prevailing prices. This matters because an attempt to alter P&L may require the trader to enter trades at an off-market rate.
- f. Dealer Single Transaction Limits - Trader limits enable delegation of authority to execute transactions for and in behalf of the Bank to allow continuity of the treasury function even in the absence of the Treasurer. Trader limits aim to manage operational risks that is caused by this delegation of authority.

VaR is used by the Parent Company to measure market risk exposure from its trading and investment activities. VaR is an estimate of the maximum decline in value on a given position over a specified holding period in a normal market environment, with a given probability of occurrence. The Parent Company uses the historical simulation method in estimating VaR. The historical simulation method is a non-parametric approach to VaR calculation, in which asset returns are not subject to any functional distribution assumption. VaR is estimated directly from historical data without deriving parameters or making assumptions about the entire data distribution.

The historical data used by the Parent Company covers the most recent 260 business days (approximately 1 year). The Parent Company updates its dataset on a daily basis. Per Parent Company policy, VaR is based on a 1-day holding period and a confidence level of 99.5%.

Discussed below are the limitations and assumptions applied by the Parent Company on its VaR methodology:

- a. VaR is a statistical estimate; thus, it does not give the precise amount of loss the Parent Company may incur in the future;
- b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a Parent Company's exposure to market risk;
- c. Since VaR is computed from end-of-day positions and market factors, VaR does not capture intraday market risk.
- d. VaR systems depend on historical data. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Therefore, market shifts (i.e., an unexpected collapse of the market) will not be captured and may inflict losses larger than VaR; and
- e. The limitation relating to the pattern of historical returns being indicative of future returns is addressed by supplementing VaR with daily stress testing reported to the RMC, ALCO and the concerned risk-takers.

VaR back testing is the process by which financial institutions periodically compare ex-post profit or loss with the ex-ante VaR figures to gauge the robustness of the VaR model. The Parent Company performs quarterly back testing.

On June 1, 2011, the Parent Company began implementing an enhanced VaR model which calculates VaR on a daily rather than weekly basis. Additionally, the enhanced VaR includes foreign exchange risk VaR. However, the VaR methodology, assumptions and parameters did not change. The enhanced VaR model was approved by the BOD on May 31, 2011 and subsequently amended in April 2012 and June 2013 considering the observations of BSP.

### 3. Structure and Organization

The Bank has established structure and organization to manage market risks with the involvement of the following units:

- a. Treasury – Initiates limits proposal taking into consideration target budgets, market volatility forecasts and opportunities
- b. ERMU – Evaluates the proposed limits considering the overall risk appetite of the Bank and possible impact on the capital adequacy.
- c. MANCOM – Reviews and endorses the proposed limits to RMC/BOD. It also reviews and approves breaches on limits with the justification, strategy and action plan of Treasury.
- d. RMC – Review proposed limits considering the risk appetite set by the Board of Directors and overall direction and endorses for confirmation
- e. Board of Directors – Reviews and confirms approval of the RMC.

### 4. Scope and Nature of Risk Reporting

To proactively manage risks, ERMU regularly provide the following reports:

Type of Reports	Frequency/Recipient
Marked- to- Market	Daily – Treasury/RMC
Stop Loss and Loss Alert	
Position Limit	
Value-at-Risk	Weekly – MANCOM
Modified Duration	Monthly – RMC/BOD
Off-Market Rate Tolerance Limits	
Dealer Single Transaction Limits	
Report on Limit Breaches	
Asset Liability Mgt Report	Monthly – ALCO/RMC/BOD
VaR Back testing	Quarterly – RMC/BOD
Uniform Stress Testing	Semi-annual – RMC/BOD

### 5. Policies for Mitigating Risk

Overall, on a yearly basis ERMU conducts review of various limits for Treasury. The limits include: position; VaR; modified duration; off-market rate tolerance; trader's limit, etc. New limits are proposed considering performance, actual utilization of existing limits, and analysis of the market and the impact of the limits on the overall capital adequacy of the Bank.

For Initial Risks Taken, risk-taking personnel and business units follow the Product Approval Process for new market risk exposures due to different types of financial instruments. The risk-taking personnel make proposals for evaluation and for evaluation and/or approval by different committees (ALCO, CRECOM, RMC and BOD). The proposals are formalized by these risk sponsors in a document called Product Manual.

Approved guidelines are being followed whether to accept or reject an investment proposal. Some of the evaluation criteria include risk acceptance criteria, yield analysis, credit rating, and market liquidity, among others.

Risk mitigation continues even after acceptance of risks, through the monitoring of compliance with approved limits which serve as boundaries within which the Bank can expose itself.

The Enterprise Risk Management Units prepares a daily risk reporting package to provide Treasury, senior management, ALCO and RMC with timely and relevant covering actual exposures, limits compliance and facilitate regularization, when any breach is noted.

## **Interest Rate Risk in the Banking Book**

The Bank defines interest rate risk as the current and prospective risk to earnings or capital arising from the movements in interest rates. The Bank's lending activities, taking deposits with different maturities and interest rates and investing in a portfolio of fixed income securities expose it to interest rate risk.

### 1. Risk Management Objective

To proactively measure, control and monitor likely earnings volatility on the banking book due to changes in interest rates. Control is benchmarked on the limits set by the BOD on EaR (earnings-at-risk), in terms of percentage (%) of projected interest income.

### 2. Strategies, Processes and Measurement

The Bank utilizes a repricing gap analysis as a tool for measuring interest rate risk. The analysis is created by distributing the Bank's inflows/assets and outflows/liabilities into time bands according to each instrument's remaining term to next repricing.

Specific assumptions are used to reflect the behavior of interest-sensitive assets and liabilities in the preparation of repricing gap:

- Loans - Commercial and real estate loans are bucketed upon maturity while Consumer and Microfinance loans are bucketed at the last bucket (non-repricing). 2% prepayment rate is being distributed to the amount of loans per bucket. This % is established based on 5-year data on loans.
- Deposits - Current Account and Savings Account of Robinsons Bank are bucketed at the last bucket, while Time Deposits and Special Savings Account are bucketed upon maturity.

The repricing gap per time band is derived by computing the difference between the inflows/assets and the outflows/liabilities within the time band. A positive repricing gap occurs when more assets than liabilities are to be repriced, and implies that the Bank's net interest income could decline if interest rates decrease upon repricing. A negative repricing gap occurs when more liabilities than assets are to be repriced, and implies that the Bank's net interest income

could decline if interest rates increase upon repricing. Although such gaps are a normal part of the business, a significant amount may bring significant interest rate risk. To facilitate control interest rate risk arising from repricing gaps, maximum repricing gap and EaR/NII limits are set for time bands up to one year.

### 3. Structure and Organization

The following is the management structure and the units involved in the management of interest rate risk:

- a. ERMU – Does regular repricing gap analysis to measure interest rate risk. The analysis is benchmarked on the earnings at risk limit (EaR) limits set by the BOD.
- b. Treasury – Submits its explanation, justification and proposed strategy to manage the breach, if any.
- c. ALCO – Utilizes the repricing gap report to manage the matching of interest-sensitive assets and liabilities.
- d. MANCOM/Approving Authority – Reviews and approves the breach given the justification and proposed strategy of Treasury.
- e. RMC/BOD – Reviews and deliberates on the result of repricing gap report considering the repricing gap limits set by the BOD.

### 4. Scope and Nature of Risk Reporting

Repricing gap analysis is a part of the ALM (asset liability management) Report discussed in the ALCO and likewise presented to the RMC/BOD. The report also covers breaches noted as well as the corresponding explanations and strategies of the Treasury as approved. The repricing gap analysis is presently being reported on a monthly basis however, upon full automation of the ALM report, it shall be reported to the ALCO on a weekly basis and to the RMC/BOD on a monthly basis.

### 5. Policies for Mitigating Risk

The Bank has established policies and guidelines in managing interest rate risk in the banking book. These covers repricing gap, assumptions and EaR limits. Measurement models have been developed and subjected to internal and external validation.

To control interest rate risk, limits are set and are subject to review at least yearly or when necessary depending on the existing asset and liability profile of the Bank as affected economic or market scenario.

ALM report that include EaR is regularly reported to the Senior Management, ALCO and RMC where interest rate risk situation of the Bank is deliberated and appropriate action plans and strategies are formulated.

## **Liquidity Risk**

Liquidity risk is defined by the Bank as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses. It includes the inability to manage unplanned decreases or changes in funding sources. It also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

## 1. Risk Management Objective

To identify, measure, and control liquidity risks inherent in the Bank's activities or embedded in its assets and liability profile. Control is benchmarked on the limits set by the BOD in the form of projected maximum cumulative outflow (MCO) and certain liquidity ratios.

## 2. Strategies, Processes and Measurement

The Bank employs the liquidity or maturity gap report for measuring liquidity risk. Specific assumptions are used to reflect the behavior of assets and liabilities in the preparation of repricing gap:

- Loans – Loans are bucketed upon maturity. 2% prepayment rate is being distributed to the amount of loans per bucket. This % is established based on 5-year data on loans.
- Deposits – Current Account and Savings Account are bucketed in the first month bucket, while Time Deposits and Special Savings Account are bucketed upon maturity. The Bank calculates for the volatility of each type of deposits by getting the month-on-month percentage change of the deposits that contain 260 data set (5 years data on a weekly basis). A confidence level of 99.5% ( $260 \times 0.5\%$ ) is applied to derive the 2nd largest value among the negative values in an absolute amount. Different roll-over rates are being distributed per bucket based on the computed volatility of each type of deposits, the remaining balance then will be bucketed at the last bucket, these are said to be the core deposit.

Although available contractual maturity dates are generally used for slotting instruments into time bands, expected liquidation periods, often based on historical data, are used if contractual maturity dates are unavailable. The liquidity gap per time band is derived by computing the difference between the inflows and outflows within the time band. A positive liquidity gap is an estimate of the Group's net excess funds for the time band. A negative liquidity gap is an estimate of a future funding requirement of the Group. Although such gaps are a normal part of the business, a significant negative amount may bring significant liquidity risk. To help control liquidity risk arising from negative liquidity gaps, maximum cumulative outflow (MCO) targets are set for time bands up to 1 year.

To ensure proper identification of liquidity risk exposures, the Bank regularly reviews its plans of action depending on the magnitude of the liquidity risk at hand. These plans of actions are identified based on the liquidity gap report, projected MCO and liquidity ratios. The adequacy of its financial resources is then assessed and actions to be taken in the event of an unexpected situation are also identified.

The Senior Management and the Board are kept well informed to be able to make decisions in maintaining a level of liquidity sufficient to meet its financial obligations as they fall due. Likewise, breaches in limits are properly identified, reported to Senior Management and RMC/BOD on a timely basis, and preventive measures and/or corrective actions are taken via breach regularization memorandum.

## 3. Structure and Organization

The Bank has a defined structure and organization to manage liquidity risk, as follows:

- a. ERMU – Does regular maturity gap analysis to measure the maximum cumulative outflow (MCO). The analysis is benchmarked on the MCO limits and liquidity ratios set by the BOD.

- b. Treasury – Submits its explanation, justification and proposed strategy to manage the breach, if any.
- c. MANCOM/Approving Authority – Reviews and approves the breach given the justification and proposed strategy of Treasury.
- d. ALCO – Utilizes the maturity gap report to manage the matching of assets and liabilities.
- e. RMC/BOD – Reviews and deliberates on the result of maturity gap report considering the MCO limit and liquidity ratios set by the BOD.

#### 4. Scope and Nature of Risk Reporting

Maturity gap analysis is a part of the ALM (asset liability management) Report discussed in the ALCO and likewise presented to the RMC/BOD. The report also covers breaches noted as well as the corresponding explanations and strategies of Treasury as approved. The maturity gap analysis is presently being reported on a monthly basis however, upon full automation of the ALM report, it shall be reported to the ALCO on a weekly basis and to the RMC/BOD on a monthly basis.

#### 5. Policies for Mitigating Risk

Policies and guidelines in managing liquidity risk inherent in the asset and liability profile of the Bank have been established. Measurement models, MCO and its supporting assumptions (behavior of loans and deposits, etc.) have been developed and subjected to internal and external validation.

To manage liquidity risk, limits are set and are subject to review at least yearly or when necessary depending on the existing asset and liability profile of the Bank as affected by economic or market scenario.

ALM report that include MCO and liquidity ratios is regularly reported to the Senior Management, ALCO and RMC where the liquidity profile of the Bank is deliberated and appropriate action plans and strategies are formulated.

## **Operational Risk**

Operational Risk is defined by the Bank as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events.

#### 1. Risk Management Objective

To systematically identify causes of failures in the Bank's day-to-day operations, assess the potential loss and implement appropriate action to avoid or minimize the impact of such loss.

#### 2. Strategies, Process and Measurement

The Bank uses the Operational Risk Management (ORM) Framework which is supported various tools and methodologies to identify, assess, control, mitigate and monitor the operational risks that affect the Bank.

These tools are employed to identify high risk areas, loss drivers and trends which could be the basis of priority for operational risk management in order to prevent material failures. These tools include RCSA (Risk Control and Self-Assessment), KRI (Key Risk Indicators), LED (Loss Events Database) and BIA (Business Impact Analysis).

The MANCOM and the BOD are regularly informed on the operational risks affecting the Bank to be able to make the appropriate decisions in terms of priority and focus to at least minimize if not to prevent failures. Breaches in tolerance limits are properly identified and on a timely basis and preventive measures and/or corrective actions are taken via breach regularization memorandum to all concerned critical units.

### 3. Structure and Organization

The following is the structure and the major units involved in operational risk management:

- a. ERMU – Prepares separate risk reporting package for operational risks covering systems availability and process execution on identified critical units. The report is benchmarked on defined limits covering availability of critical systems as well as important process by the critical units of the Bank.
- b. Critical Units – All identified critical units (Treasury, Clearing, Information Technology, etc.) regularly submit their reports to ERMU. They must also provide justifications and proposed strategies to manage the breaches noted, if any.
- c. MANCOM/Approving Authority – Reviews and approves the breach given the justification and proposed strategy of the critical units concerned.
- d. RMC/BOD – Reviews and deliberates on the reports.

### 4. Scope and Nature of Risk Reporting

Operational risk reporting package is a part of the overall risk reporting package of ERMU as discussed in the MANCOM and presented to the RMC/BOD on a periodic basis.

Operational risk reporting package covers availability of critical systems (core banking, cash management, Treasury, retail internet banking, ATM postilion, microfinance POS, remittance, Trust system) as well as process execution of critical units (liquidity report, unmatched transactions, inward/outward check clearing, batch processing, disposition of maturing investments, etc.).

The report also covers breaches noted as well as the corresponding explanations and strategies of the critical units as approved by the management.

### 5. Policies for Mitigating Risk

The Bank has established its operational risk management (ORM) framework to systematically identify causes of failures in the Bank's day-to-day operation, assesses the potential loss and implements appropriate action to avoid or minimize the impact of such loss.

Likewise, guidelines and manuals of the different tools supporting the ORM have been established. The covering guidelines and policies of tools (RCSA, KRI, LED and BIA) have been amended considering the result of internal and external audit. The BCP of the Bank is also reviewed and updated on a yearly basis.

The Bank conducts yearly BCP based on defined plausible scenario considering the peculiar location of its head office. All the identified critical units that are involved in the exercise are mandated to report to their designated alternate sites and do processing under DR (disaster recovery) mode.

# Qualitative and Quantitative Information on Risk Exposures

(Credit, Market, Liquidity, Operational, Legal and Other Risks)

## Credit Risk

Credit risk may be defined as the possibility of loss due to the failure of a customer/borrower or counterparty to perform its obligation to the Group.

The Group has several credit risk mitigation practices:

- The Group offers a variety of loan products with substantial collateral values. The latter part of this credit risk section discusses collateral and other credit enhancements.
- Limits are set on the amount of credit risk that the Group is willing to take for customers and counterparties, and exposures are monitored against such credit limits.
- The Group also observes related regulatory limits such as the single borrower's limit (SBL) and directors, officers, stockholders and related interests (DOSRI) ceiling.
- To protect against settlement risk, the Group employs a delivery-versus-payment (DvP) settlement system, wherein payment is effected only when the corresponding asset has been delivered.
- For Borrowers with asset size of more than Php 15 millions, there is an internal credit risk rating system (ICRRS) in place, providing a structured format for collating and analyzing borrower data to arrive at a summary indicator of credit risk.
- On the other hand, the Bank has established RAC (risk acceptance criteria) and it is also using FICO credit score card for its consumer loan originations.

Past due and nonperforming loan (NPL) ratios are also used to measure and monitor the quality of the loan portfolio.

### *Maximum exposure to credit risk*

As of December 31, 2013 and 2012, the maximum exposure to credit risk is generally equivalent to the carrying amount of the Group's financial assets and commitments. The table below shows the Group's net credit risk exposure for interbank loans receivable and some items in loans and receivables after considering the financial effect of collateral and other credit enhancements:

	<b>Consolidated</b>			
	<b>December 31, 2013</b>			
	<b>Carrying Amount</b>	<b>Fair Value of Collateral</b>	<b>Financial Effect of Collateral</b>	<b>Maximum Exposure to Credit Risk</b>
Interbank loans receivable	P3,099,000,000	P3,102,512,904	P3,099,000,000	P-
Loans and receivables:				
Receivables from customers:				
Consumption	1,541,641,656	844,335,520	844,335,520	697,306,136
Commercial	1,074,891,295	2,127,396,668	886,562,200	188,329,095
Real estate	2,853,251,997	5,254,030,943	2,853,251,997	-
Other receivables:				
Sales contract receivable	107,295,629	129,030,344	107,295,629	-
	<b>P8,676,080,577</b>	<b>P11,457,306,379</b>	<b>P7,790,445,346</b>	<b>P885,635,231</b>

Parent Company				
December 31, 2013				
	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral	Maximum Exposure to Credit Risk
Interbank loans receivable	₱3,099,000,000	₱3,102,512,904	₱3,099,000,000	₱-
Loans and receivables:				
Receivables from customers:				
Consumption	751,602,051	719,626,159	719,626,159	31,975,893
Commercial	669,826,015	1,928,975,983	669,826,015	-
Real estate	2,844,331,284	5,233,217,933	2,844,331,284	-
Other receivables:				
Sales contract receivable	10,908,602	26,168,055	10,908,602	-
	<b>₱7,375,667,952</b>	<b>₱11,010,501,034</b>	<b>₱7,343,692,060</b>	<b>₱31,975,893</b>

Consolidated				
December 31, 2012				
	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral	Maximum Exposure to Credit Risk
Interbank loans receivable	₱100,000,000	₱104,935,736	₱100,000,000	₱-
Loans and receivables:				
Receivables from customers:				
Consumption	1,515,527,674	1,759,528,119	1,091,860,132	423,667,542
Commercial	2,561,649,349	2,612,330,031	2,418,265,151	143,384,198
Real estate	2,857,377,391	3,290,066,072	2,857,377,391	-
Other receivables:				
Sales contract receivable	62,493,943	85,460,835	62,493,943	-
	<b>₱7,097,048,357</b>	<b>₱7,852,320,793</b>	<b>₱6,529,996,617</b>	<b>₱567,051,740</b>

Parent Company				
December 31, 2012				
	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral	Maximum Exposure to Credit Risk
Interbank loans receivable	₱100,000,000	₱104,935,736	₱100,000,000	₱-
Loans and receivables:				
Receivables from customers:				
Consumption	1,007,282,720	1,674,950,707	1,007,282,720	-
Commercial	2,059,728,146	2,253,793,026	2,059,728,146	-
Real estate	2,834,945,179	3,255,617,467	2,834,945,179	-
Other receivables:				
Sales contract receivable	14,561,472	24,698,351	14,561,472	-
	<b>₱6,016,517,517</b>	<b>₱7,313,995,287</b>	<b>₱6,016,517,517</b>	<b>₱-</b>

#### *Collateral and other credit enhancement*

The aggregate fair market value of collateral against the maximum exposure on the Group's financial assets amounted to ₱11.38 billion and ₱7.52 billion as of December 31, 2013 and 2012, respectively.

The aggregate fair market value of collateral against the maximum exposure on the Parent Company's financial assets amounted to ₱11.01 billion and ₱6.98 billion as of December 31, 2013 and 2012, respectively.

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

The main types of collateral obtained are as follows:

- Mortgages over real estate and vehicle for consumer lending
- Chattels over inventory and receivable for commercial lending
- Government securities for interbank lending

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

#### Concentration of credit

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

The tables below show the distribution of maximum exposure to credit risk by industry sector of the Group before taking into account collateral held and other credit enhancements (in millions):

	Consolidated		
	2013		
	Loans and Receivables*	Investment Securities**	Total
Financial intermediaries	₱17,441	₱1,779	₱19,220
Real estate, renting and business services	4,982	75	5,057
Wholesale and retail	2,825	–	2,825
Electricity, gas and water	1,749	–	1,749
Transport, storage and communication	1,302	–	1,302
Construction	936	–	936
Agriculture, hunting and forestry	906	–	906
Manufacturing	573	–	573
Government institutions	–	5,126	5,126
Others	5,320	24	5,344
	36,034	7,004	43,038
Less allowance for credit losses	518	–	518
	₱35,516	₱7,004	₱42,520

\* All financial assets other than investment securities and cash on hand

\*\* Financial assets at FVPL, AFS and HTM investments

	Parent Company		
	2013		
	Loans and Receivables*	Investment Securities**	Total
Financial intermediaries	₱16,170	₱1,808	₱17,949
Real estate, renting & business services	4,915	75	4,990
Wholesale and retail	2,581	–	2,581
Electricity, gas and water	1,749	–	1,749
Transport, storage and communication	1,302	–	1,302
Construction	936	–	936
Agriculture, hunting and forestry	662	–	662
Manufacturing	573	–	573
Government institutions	–	5,126	5,126
Others	4,774	24	4,827
	33,662	7,033	40,695
Less allowance for credit losses	460	–	460
	₱33,202	₱7,033	₱40,235

\* All financial assets other than investment securities and cash on hand

\*\* Financial assets at FVPL, AFS and HTM investments

	Consolidated		
	2012		
	Loans and Receivables*	Investment Securities**	Total
Financial intermediaries	₱10,601	₱1,214	₱11,815
Real estate, renting & business services	4,670	–	4,670
Wholesale and retail	3,418	–	3,418
Agriculture, hunting and forestry	2,572	–	2,572
Electricity, gas and water	1,747	–	1,747
Construction	621	–	621
Manufacturing	601	–	601
Transport, storage and communication	562	–	562
Government institutions	–	8,364	8,364
Others	4,419	16	4,435
	29,211	9,594	38,805
Less allowance for credit losses	521	–	521
	₱28,690	₱9,594	₱38,284

\* All financial assets other than investment securities and cash on hand

\*\* Derivative assets, financial assets at FVPL and AFS investments

	Parent Company		
	2012		
	Loans and Receivables*	Investment Securities**	Total
Financial intermediaries	₱9,667	₱1,212	₱10,879
Real estate, renting & business services	4,598	–	4,598
Wholesale and retail	3,039	–	3,039
Agriculture, hunting and forestry	2,256	–	2,256
Electricity, gas and water	1,747	–	1,747
Construction	621	–	621
Manufacturing	601	–	601
Transport, storage and communication	562	–	562
Government institutions	–	8,364	8,364
Others	4,215	16	4,231
	27,306		
Less allowance for credit losses	521	–	521
	₱26,785	₱9,592	₱36,377

\* All financial assets other than investment securities and cash on hand

\*\* Derivative assets, financial assets at FVPL and AFS investments

### Credit quality

#### Parent Company

For receivables from customers, the Parent Company's internal credit risk rating (ICRR) system was approved in 2007 and improved in 2011 and 2012 in accordance with BSP requirement, to cover corporate credit exposures, which is defined by BSP as exposures to companies with assets of more than ₱15.00 million.

The Parent Company's ICRR system intends to provide a structure to define the credit portfolio, and consists of an initial rating for the borrower risk adjusted for the facility risk. Inputs include an assessment of management, credit experience, financial condition, industry outlook, documentation, security and term.

The following tables show the credit quality per class of loans and receivables, gross of allowance for credit losses and unearned interest discount of the Parent Company (in millions):

Parent Company							
2013							
Neither past due nor impaired				Past due but			
High Grade	Standard Grade	Substandard Grade	Unrated	not Individually Impaired	Individually Impaired	Total	
Receivables from customers:							
Commercial	₱5,090	₱3,021	₱2,235	₱340	₱4	₱504	₱11,194
Real estate	-	2,759	-	-	115	-	2,874
Consumption	-	2,282	-	-	295	-	2,577
Domestic bills purchased	-	717	-	-	-	-	717
Other receivables:							
Unquoted debt securities	-	555	-	-	-	-	555
Accrued interest receivable	-	213	-	-	5	-	218
Accounts receivable	-	57	-	-	22	-	79
Sales contract receivable	-	4	-	-	10	-	14
	<b>₱5,090</b>	<b>₱9,608</b>	<b>₱2,235</b>	<b>₱340</b>	<b>₱451</b>	<b>₱504</b>	<b>₱18,228</b>

Parent Company							
2012							
Neither past due nor impaired				Past due but			
High Grade	Standard Grade	Substandard Grade	Unrated	not Individually Impaired	Individually Impaired	Total	
Receivables from customers:							
Commercial	₱6,258	₱3,599	₱617	₱474	₱14	₱381	₱11,343
Real estate	-	2,745	-	-	100	-	2,845
Consumption	-	1,842	-	-	276	-	2,118
Domestic bills purchased	-	495	-	-	-	-	495
Other receivables:							
Unquoted debt securities	-	555	-	-	-	-	555
Accrued interest receivable	-	275	-	-	8	14	297
Accounts receivable	-	139	-	-	27	-	166
Sales contract receivable	-	12	-	-	4	-	16
	<b>₱6,258</b>	<b>₱9,662</b>	<b>₱617</b>	<b>₱474</b>	<b>₱429</b>	<b>₱395</b>	<b>₱17,835</b>

### External ratings

In ensuring a quality investment portfolio, the Parent Company monitors credit risk from investments using credit ratings based on Fitch Ratings, Moody's Investors Service (Moody's rating), Standard & Poor's (S&P) ratings and Phil Ratings (PRS).

Credit quality of due from BSP and other banks and interbank loans receivable are based on available accredited international and local credit raters to include Fitch Ratings, Moody's Investors Service (Moody's rating), Standard & Poor's (S&P) ratings and Phil Ratings (PRS) as standard of rating.

The Parent Company assigns the following credit quality groupings based on Fitch Ratings, Moody's rating, Standard & Poor's (S&P) and Phil Ratings (PRS) as follows:

Credit Quality	Fitch	Moody's	Standard & Poor's	Phil Ratings
High Grade	AAA to A-	Aaa to A3	AAA to A-	PRS Aaa to PRS A
Standard Grade	BBB+ to BB-	Baa1 to Ba3	BBB+ to BB-	PRS Baa to PRS Ba
Substandard Grade	B+ to C-	B1 to Ca	B+ to C	PRS B to PRS Ca
Past due and impaired	D	C	D	PRS C

The following tables show the credit quality per class of financial assets other than receivable from customers and other receivables of the Parent Company (in millions):

Parent Company							
2013							
Neither past due nor impaired				Past due but			Total
High Grade	Standard Grade	Substandard Grade	Unrated	not Individually Impaired	Individually Impaired		
Financial assets at FVPL	P-	P1,095	P-	P-	P-	P-	P1,095
AFS investments:							
Government securities	-	4,540	-	-	-	-	4,540
Private bonds	-	1,270	-	-	-	-	1,270
Unquoted equity securities	-	-	-	53	-	-	53
HTM investment	-	-	-	75	-	-	75
Loans and receivables:							
Due from BSP	-	10,288	-	-	-	-	10,288
Due from other banks	60	1,955	-	-	-	-	2,015
Interbank loans receivable	-	3,099	-	-	-	-	3,099
Other assets:							
Refundable deposits	-	-	-	32	-	-	32
	<b>P60</b>	<b>P22,247</b>	<b>P-</b>	<b>P160</b>	<b>P-</b>	<b>P-</b>	<b>P22,467</b>

Parent Company							
2012							
Neither past due nor impaired				Past due but			Total
High Grade	Standard Grade	Substandard Grade	Unrated	not Individually Impaired	Individually Impaired		
Derivative assets	P-	P109	P-	P-	P-	P-	P109
Financial assets at FVPL	-	2,186	-	-	-	-	2,186
AFS investments:							
Government securities	-	6,178	-	-	-	-	6,178
Private bonds	-	1,103	-	-	-	-	1,103
Unquoted equity securities	-	-	-	16	-	-	16
Loans and receivables:							
Due from BSP	-	7,350	-	-	-	-	7,350
Due from other banks	60	1,932	-	-	-	-	1,992
Interbank loans receivable	-	100	-	-	-	-	100
Other assets:							
Refundable deposits	-	-	-	22	-	-	22
	<b>P60</b>	<b>P18,958</b>	<b>P-</b>	<b>P38</b>	<b>P-</b>	<b>P-</b>	<b>P19,056</b>

As of December 31, 2013 and 2012, the Parent Company's commitments amounting to P2.52 billion and P1.63 billion, respectively, have a risk rating class of Standard Grade.

### LSB

For receivables from customers, credit quality is being evaluated by LSB using the following classifications:

#### *Neither past due nor individually impaired*

LSB classifies those accounts under current status having the following loan grades:

- High grade

This pertains to accounts with a very low probability of default as demonstrated by the borrower's long history of stability, profitability and diversity. The borrower has the ability to raise substantial amounts of funds through the public markets. The borrower has a strong debt service record and a moderate use of leverage.

- **Standard grade**  
The borrower has no history of default. The borrower has sufficient liquidity to fully service its debt over the medium term. The borrower has adequate capital to readily absorb any potential losses from its operations and any reasonably foreseeable contingencies. The borrower reported profitable operations for at least the past 3 years.
- **Substandard grade**  
The borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues.
- **Unrated grade**  
Other credit assets which cannot be classified as High, Standard or Sub-standard are tagged as Unrated.

*Past due but not individually impaired*

These are accounts which are classified as delinquent but LSB assesses that there is no objective evidence that these accounts are impaired as of statement of financial position date.

*Individually impaired*

Accounts which show evidence of impairment as of statement of financial position date.

The following tables show credit quality per class of loans and receivables, gross of allowance for credit losses and unearned interest discount (in millions):

December 31, 2013							
	Neither past due nor impaired				Past due but not		Total
	High Grade	Standard Grade	Substandard Grade	Unrated	Individually Impaired	Individually Impaired	
Receivables from customers:							
Commercial	P-	P72	P-	P-	P64	P353	P489
Real estate	-	639	-	-	134	84	857
Consumption	-	4	-	-	-	13	17
Other receivables:							-
Accrued interest receivable	-	-	-	-	-	18	18
Accounts receivable	-	17	-	-	-	5	22
Sales contract receivable	-	36	-	-	14	-	50
Finance lease receivable	-	-	8	-	-	-	8
	<b>P-</b>	<b>P768</b>	<b>P8</b>	<b>P-</b>	<b>P212</b>	<b>P473</b>	<b>P1,461</b>

December 31, 2012							
	Neither past due nor impaired				Past due but not		Total
	High Grade	Standard Grade	Substandard Grade	Unrated	Individually Impaired	Individually Impaired	
Receivables from customers:							
Commercial	P14	P4	P8	P53	P8	P228	P315
Real estate	100	59	29	22	3	338	551
Consumption	-	-	-	-	-	13	13
Other receivables:							
Accrued interest receivable	7	-	-	-	-	-	7
Accounts receivable	34	-	-	-	-	-	34
Sales contract receivable	48	-	-	-	-	-	48
Finance lease receivable	-	-	7	-	-	-	7
	<b>P203</b>	<b>P63</b>	<b>P44</b>	<b>P75</b>	<b>P11</b>	<b>P579</b>	<b>P975</b>

The credit quality of LSB's financial assets at amortized cost and investment securities are all classified as high grade except for 'Refundable deposits' which is classified as unrated. LSB does not have financial assets (excluding loans and receivables) and investment securities which are either past due but not impaired or individually impaired as of December 31, 2013 and 2012, respectively.

*Aging analysis of past due but not impaired loans and receivables per class*

The tables below show the aging analysis of past due but not impaired loans and receivables per class of the Group (in millions):

	Consolidated				Total
	2013				
	Less than 30 days	30 to 60 days	61 to 90 days	91 days and above	
Receivables from customers:					
Commercial	P18	P30	P4	P16	P68
Real estate	96	1	-	18	115
Consumption	232	113	15	69	429
Other receivables:					
Accrued interest receivable	1	-	1	3	5
Accounts receivable	-	1	4	17	22
Sales contract receivable	-	2	-	22	24
	<b>P347</b>	<b>P147</b>	<b>P24</b>	<b>P145</b>	<b>P663</b>

	Parent Company				Total
	2013				
	Less than 30 days	30 to 60 days	61 to 90 days	91 days and above	
Receivables from customers:					
Commercial	P-	P-	P-	P4	P4
Real estate	96	1	-	18	115
Consumption	219	9	5	62	295
Other receivables:					
Accrued interest receivable	1	-	1	3	5
Accounts receivable	-	1	4	17	22
Sales contract receivable	-	-	-	10	10
	<b>P316</b>	<b>P11</b>	<b>P10</b>	<b>P114</b>	<b>P451</b>

	Consolidated				Total
	2012				
	Less than 30 days	30 to 60 days	61 to 90 days	91 days and above	
Receivables from customers:					
Commercial	P4	P2	P1	P18	P25
Real estate	6	-	8	89	103
Consumption	23	19	34	199	275
Other receivables:					
Accrued interest receivable	-	-	1	6	7
Accounts receivable	3	2	2	20	27
Sales contract receivable	-	-	-	3	3
	<b>P36</b>	<b>P23</b>	<b>P46</b>	<b>P335</b>	<b>P440</b>

	Parent Company				Total
	2012				
	Less than 30 days	30 to 60 days	61 to 90 days	91 days and above	
Receivables from customers:					
Commercial	P3	P-	P-	P11	P14
Real estate	6	-	7	87	100
Consumption	24	19	34	199	276
Other receivables:					
Accrued interest receivable	-	-	1	7	8
Accounts receivable	2	1	2	22	27
Sales contract receivable	-	-	-	4	4
	<b>P35</b>	<b>P20</b>	<b>P44</b>	<b>P330</b>	<b>P429</b>

## Liquidity Risk

Liquidity risk may be defined as the possibility of loss due to the Group's inability to meet its financial obligations when they become due. Liquidity risk is considered in the Group's assets and liabilities management. The Group seeks to lengthen liability maturities, diversify existing fund sources, and continuously develop new instruments that cater to different segments of the market.

The Parent Company's ALCO is composed of some members of the Senior Management including the Lending Groups and Treasury Group Heads. ALCO conducts weekly meetings. The Parent Company also has specialized units that help monitor market and regulatory developments pertinent to interest rates and liquidity position, as well as prepare cash position reports as needed to measure the liquidity and reserves position of the Parent Company.

The Parent Company also keeps credit lines with financial institutions, as well as a pool of liquid or highly marketable securities. Reserves management is another specialized function within the Bank, complying with BSP reserve requirements, which may be a buffer against unforeseen liquidity drains.

### *Analysis of financial instruments by remaining maturities*

The table below summarized the maturity profile of the Group's financial instruments based on contractual undiscounted cash flows (in millions):

	Consolidated					Total
	2013					
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	
<b>Financial Assets</b>						
Cash and other cash items	<b>P1,143</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P1,143</b>
Due from BSP	<b>5,712</b>	<b>5,727</b>	-	-	-	<b>11,439</b>
Due from other banks	<b>1,381</b>	<b>755</b>	-	-	-	<b>2,136</b>
Interbank loans receivable	-	<b>3,008</b>	-	<b>90</b>	<b>33</b>	<b>3,131</b>
Financial assets at FVPL	-	<b>1,095</b>	-	-	-	<b>1,095</b>
AFS investments	-	<b>175</b>	<b>369</b>	<b>1,745</b>	<b>9,510</b>	<b>11,799</b>
HTM investment	-	<b>1</b>	<b>3</b>	<b>15</b>	<b>84</b>	<b>103</b>
Loans and receivables	<b>777</b>	<b>3,350</b>	<b>3,681</b>	<b>10,011</b>	<b>9,261</b>	<b>27,080</b>
Other assets	-	-	<b>32</b>	-	<b>1</b>	<b>33</b>
	<b>P9,013</b>	<b>P14,111</b>	<b>P4,085</b>	<b>P11,861</b>	<b>P18,889</b>	<b>P57,959</b>

(Forward)

Consolidated						
2013						
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	Total
<b>Financial Liabilities</b>						
Deposit liabilities	P31,448	P 3,886	P1,186	P2,587	P-	P39,107
Manager's checks	237	-	-	-	-	237
Redeemable preferred shares	2	-	-	-	-	2
Accrued expenses and other liabilities	1,350	55	-	-	-	1,405
	33,037	3,941	1,186	2,587	-	40,751
Commitments	2,520	-	-	-	-	2,520
	P35,557	P3,941	P1,186	P2,587	P-	P43,271

Parent Company						
2013						
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	Total
<b>Financial Assets</b>						
Cash and other cash items	P1,109	P-	P-	P-	P-	P1,109
Due from BSP	5,574	4,714	-	-	-	10,288
Due from other banks	1,262	754	-	-	-	2,016
Interbank loans receivable	-	3,008	-	90	33	3,131
Financial assets at FVPL	-	1,095	-	-	-	1,095
AFS investments	-	175	369	1,745	9,510	11,799
HTM investment	-	1	3	15	84	103
Loans and receivables	228	3,171	3,356	9,061	9,209	25,025
Other assets	-	-	32	-	-	32
	P8,173	P12,918	P3,760	P10,911	P18,836	P54,598
<b>Financial Liabilities</b>						
Deposit liabilities	P29,535	P3,876	P1,150	P2,097	P-	36,658
Manager's checks	237	-	-	-	-	237
Accrued expenses and other liabilities	1,327	55	-	-	-	1,382
	31,099	3,931	1,150	2,097	-	38,277
Commitments	2,520	-	-	-	-	2,520
	33,619	3,931	1,150	2,097	-	40,797
	(P25,446)	P8,987	P2,610	P8,814	P18,836	P13,801

Consolidated						
2012						
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	Total
<b>Financial Assets</b>						
Cash and other cash items	P1,038	P-	P-	P-	P-	P1,038
Due from BSP	8,107	-	-	-	-	8,107
Due from other banks	1,098	1,072	-	-	-	2,170
Interbank loans receivable	-	-	-	130	-	130
Financial assets at FVPL	-	2,186	-	-	-	2,186
Derivative assets	-	109	-	-	-	109
AFS investments	-	391	33	587	12,938	13,949
Loans and receivables	1,875	2,880	1,610	9,235	10,347	25,947
Other assets	1	-	21	-	3	25
	P12,119	P6,638	P1,664	P9,952	P23,288	P53,661
<b>Financial Liabilities</b>						
Deposit liabilities	P28,792	P2,347	P909	P2,310	P-	P34,358
Manager's checks	171	-	-	-	-	171

(Forward)

Consolidated						
2012						
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	Total
Redeemable preferred shares	31	-	-	-	-	31
Accrued expenses and other liabilities	1,165	88	-	-	-	1,253
	30,159	2,435	909	2,310	-	35,813
Commitments	1,626	-	-	-	-	1,626
	31,785	2,435	909	2,310	-	37,439
	(P19,666)	P4,203	P755	P7,642	P23,288	P16,222

Parent Company						
2012						
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	Total
<b>Financial Assets</b>						
Cash and other cash items	P988	P-	P-	P-	P-	P988
Due from BSP	7,350	-	-	-	-	7,350
Due from other banks	920	1,072	-	-	-	1,992
Interbank loans receivable	-	-	-	130	-	130
Financial assets at FVPL	-	2,186	-	-	-	2,186
Derivative assets	-	109	-	-	-	109
AFS investments	-	389	33	587	12,938	13,947
Loans and receivables	1,199	2,763	1,406	8,650	10,335	24,353
Other assets	6	-	22	-	-	28
	P10,463	P6,519	P1,461	P9,367	P23,273	P51,083
<b>Financial Liabilities</b>						
Deposit liabilities	P28,641	P561	P819	P2,310	P-	P32,331
Manager's checks	171	-	-	-	-	171
Accrued expenses and other liabilities	1,105	88	-	-	-	1,193
	29,917	649	819	2,310	-	33,695
Commitments	1,626	-	-	-	-	1,626
	31,543	649	819	2,310	-	35,321
	(P21,080)	P5,870	P642	P7,057	P23,273	P15,762

## Market Risk

Market risk may be defined as the possibility of loss due to adverse movements in market factors such as rates and prices. Market risk is present in both trading and non-trading activities. These are the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. The risk arises from market-making, dealing and position-taking in quoted debt securities and foreign exchange.

The Parent Company observes market risk limits, which are approved by the BOD and reviewed at least annually. Limits are set in such a way as to ensure that risks taken are based on the Parent Company's existing capital adequacy framework, and corresponding monitoring reports are prepared regularly by an independent risk management unit.

When limits are breached, approval is sought from successive levels of authority depending on the amount of the excess. Limit breaches are periodically presented to the BOD.

Value-at-Risk (VaR) is computed to estimate potential losses arising from market movements. The Parent Company calculates and monitors VaR and profit or loss on a daily basis.

The Parent Company's VaR figures are as follows (in millions):

	2013			
	Average Daily	Highest	Lowest	December 31
Local interest rates	<b>₱38.39</b>	<b>₱53.02</b>	<b>₱13.73</b>	<b>₱36.30</b>
Foreign interest rate	<b>1.77</b>	<b>3.08</b>	<b>1.31</b>	<b>2.88</b>

	2012			
	Average Daily	Highest	Lowest	December 31
Local interest rates	₱25.32	₱82.89	₱0.00	₱31.15
Foreign interest rate	3.51	16.40	0.00	1.59

## Interest Rate Risk in Banking Book

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 Parent Company's ALCO surveys the interest rate environment, adjusts the interest rates for the Parent Company's loans and deposits, assesses investment opportunities and reviews the structure of assets and liabilities. The Parent Company uses Earnings-at-Risk (EaR) as a tool for measuring and managing interest rate risk in the banking book.

## Earnings at Risk

Earnings-at-Risk is a statistical measure of the likely impact of changes in interest rates to the Parent Company's net interest income (NII). To do this, repricing gaps (difference between interest rate-sensitive assets and liabilities) are classified according to time to repricing and multiplied with applicable historical interest rate volatility. Although available contractual repricing dates are generally used for slotting instruments into time bands, contractual maturity dates (e.g., for fixed rate instruments) or expected liquidation periods often based on historical data are used alternatively.

A sensitivity analysis was conducted to determine the impact of 50 bps, 100 bps and 150 bps on the NII of the Bank. The Parent Company's comparative EaR figures are as follows:

	Parent Company					
	2013					
	Change in Basis Points	Net Interest Income Estimated Effect in Million Pesos	Change in Basis Points	Net Interest Income Estimated Effect in Million Pesos	Change in Basis Points	Net Interest Income Estimated Effect in Million Pesos
PHP	+50	(11.51)	+100	(23.01)	+150	(34.52)
	-50	11.51	-100	23.01	-150	34.52
USD	+50	(10.47)	+100	(20.93)	+150	(31.40)
	-50	10.47	-100	20.93	-150	31.40

Parent Company						
2012						
	Change in Basis Points	Net Interest Income Estimated Effect in Million Pesos	Change in Basis Points	Net Interest Income Estimated Effect in Million Pesos	Change in Basis Points	Net Interest Income Estimated Effect in Million Pesos
PHP	+50	(30.64)	+100	(61.28)	+150	(91.92)
	-50	30.64	-100	61.28	-150	91.92
USD	+50	(8.34)	+100	(16.67)	+150	(25.01)
	-50	8.34	-100	16.67	-150	25.01

## Foreign Currency Risk

The Parent Company seeks to maintain a square or minimal position on its foreign currency exposure.

Foreign currency liabilities generally consist of foreign currency deposits in the Parent Company's FCDO. Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDO. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held in FCDO. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held in the FCDO. The Parent Company uses VaR methodology for measuring foreign currency risk.

Foreign Currency Risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis and are used to ensure positions are maintained within established limits.

December 31, 2013		Statement of Income	OCI
+10% USD appreciation	USD	₱26,037,177	(₱36,739,536)
	Other Foreign Currencies*	1,911,036	-
-10% USD depreciation	USD	(26,037,177)	36,739,536
	Other Foreign Currencies*	(1,911,036)	-
December 31, 2012		Statement of Income	OCI
+10% USD appreciation	USD	(₱20,274,585)	₱708,830
	Other Foreign Currencies*	22,147,403	-
-10% USD depreciation	USD	20,274,585	(708,830)
	Other Foreign Currencies*	(22,147,403)	-

\*significant positions held in EUR and AUD

## Operational Risk

Operational Risk is defined by the Bank as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events. In order to identify the risks central to Operations and arrive at an exposure that captures all the risk the Bank may be susceptible to, tools such as the Risk and Control Self-Assessment (RCSA) and Loss Events Database (LED) are used which supports the overall Operational Risk Management Framework of the Bank.

The RCSA serves as a tool to undertake an assessment of risks and controls within the Bank with active involvement of the business units. The resulting operational risk profile serves as a trigger point to determine

the appropriate types of risk indicators that may be adopted for monitoring operational risk exposures. As a continuous and regular process in the assessment of risks and controls, the RCSA provides a more comprehensive forward-looking risk profile that is linked to the Bank's overall risk appetite. Last September 2013, the Bank conducted the RCSA in order to assess the levels of operational risk exposures and risk controls of the business and service units of the Bank. Pre-determined key risk indicators are classified according to Basel's 7 Event Categories with an inclusion of a category developed by the Bank to specifically cater risks involving Information Technology. The Bank's total Loss Exposure was based on the probability of occurrence, frequency and level of operational control scenarios. Shown in the table below are comparative the results of 2012 and 2013 RCSA exercise:

Event Type Category per Basel	Potential Loss Exposure	
	2012	2013
Internal Fraud	14,029,500	23,710,500
External Fraud	22,649,000	27,386,000
Employment Practices and Workplace Safety	19,812,500	27,795,000
Clients, Products and Business Practices	13,084,500	24,700,000
Damage to Physical Assets (resulting from)	19,245,500	4,772,000
Business Disruption and System Failure	46,966,000	46,557,500
Execution, Delivery or Process Management	21,883,500	21,165,500
Information Security and Technology Risk	27,765,000	25,001,000
<b>Aggregate</b>	<b>185,435,500</b>	<b>201,087,500</b>

The Loss Event Database (LED), another tool used by the Bank to determine Operational Risk Exposure is a collection of information about data of loss events, any recoveries, as well as some descriptive information about the cause/drivers of loss event and an analysis of the collected data per loss event category and business line. Like the RCSA, the LED patterned its event categories after Basel II. The table below shows a comparative summary of the historical LED report as of December 2012 and 2013:

Basel 2 Loss Event Categories	2012	2013
Internal Fraud	-	-
External Fraud	23,000.00	800,350.00
Employment Practices	-	-
Clients, Products and Services	-	-
Damage to Physical Assets	-	57,285.71
Damage Assessment Report	-	57,285.71
Execution, Delivery and Process Management	1,185,948.46	-
Regulatory Fines and Penalties	1,185,948.46	-
Negligence	-	-
<b>OPERATIONAL RISK LOSS</b>	<b>1,208,948.46</b>	<b>857,635.71</b>
Extraordinary Events of 2013	-	41,494,689.33
Estimated Cash Loss	-	35,220,536.67
Loss on Property, Equipment and Infrastructure	-	6,274,152.66
<b>TOTAL OPERATIONAL RISK LOSS</b>	<b>1,208,948.46</b>	<b>42,352,325.04</b>

Analysis of the incident data captured in the LED enables the Bank to understand and analyze the root causes of operational risk losses as well as to validate and cross-reference for qualitative measures such as the results from the RCSA and the KRI because while the latter measures the potential risk exposure, the LED gauges the actual losses the Bank has incurred. Hence, both tools serve as an internal loss quantification and reference tool for setting the risk appetite for the Bank.

## Business Risk

Business Risk as defined by BSP in Circular 747 refers to conditions which may be detrimental to a bank's business model and its ability to generate returns from operations, which in turn erodes its franchise value. Combining business risk with financial risks arising from the use of borrowed funds generates total corporate risk of the bank. Business risks shall include, but not limited to, the following:

1. Risks to reputation that arise from internal decisions that may damage a bank's market standing;
2. Risks to reputation that arise from internal decisions and practices that ultimately impinge on the public's trust of a bank;
3. Risks from the actions of a bank that are contrary to existing regulations and identified best practices and reflect weaknesses in the implementation of codes of conduct and standards of good practice; and
4. Legal risks to the extent that changes in the interpretation or provisions of regulations directly affect a bank's business model. Legal risk also covers the Bank's current and potential losses from lawsuits.

The assessment of Business Risk is covered in the Bank's Compliance Program, approved by the Board of Directors. To improve the effectiveness of the Compliance Program, it is summarized in the Compliance Risk Assessment Document, which contains the Bank specific high risk areas identified by the Compliance Unit, given the nature of its operation and business.

In assessing for the Bank's loss exposure under Business Risk, capital charge was used as a metric to cover for the potential losses that may arise from the three specific risks included in the computation of Business Risk: Compliance, Reputational, and Legal. Shown in the table below is the Bank's Loss Exposure to Business Risk. Following it is the rationale behind the numbers.

<b>Type of Risk</b>	<b>Capital Charge as of Dec-2013</b>
Compliance Risk	22.050
Reputational Risk	1.740
Legal Risk	4.540
Total Business Risk	28.330

## Compliance Risk

The Bank specified the loss amounts corresponding to the risk events using historical data, the sanctions/penalties to be imposed by the regulator in case of non-compliance, and considering the likelihood of occurrence, mitigating measures in place and management actions to address and control the risk.

## Reputational Risk

The Bank based the loss exposure for Reputational Risk on the following variables:

1. Impact and likelihood assessment and quantification - Assessment of the maximum loss amount and likelihood of each reputational risk event by analyzing the root causes of such events
2. Control assessment and quantification -Assessment of the effectiveness of controls established by the Bank to manage the risk

3. "Reputational Crisis" Stress testing - Assessment of the gross loss of the reputation events on its business and effectiveness of controls under different stress scenarios

The computed loss exposure for Reputational Risk is then multiplied by 20%, the growth rate factor assumed by the Bank to be used as the yearly increase in Reputational Risk capital charge.

## Legal Risk

Legal risk is defined as the extent that changes in the interpretation or provisions of regulations directly affect a Bank's business model. It also encompasses current and potential losses from lawsuits. The Bank's Legal Department makes use of the Status Report on Cases filed against/by the Bank in order to arrive at an appropriate measure of risk exposure. The database primarily monitors the standing of all cases the Bank handles. The main feature of this report is that it shows the estimated legal expenses incurred from having been involved in the case filed, the amount claimed by either parties or the probable provision for recovery or losses. The report is presented to the Management Committee on a monthly basis and to the Board of Directors on quarterly basis for oversight.

The Bank based the loss exposure for Legal Risk on the combined potential losses from cases filed by the Bank and cases involving Bank employees. Similar to the computation of capital charge for Reputational Risk, the Bank assumed a yearly growth rate of 20%.

## Strategic Risk

Given its importance to the Bank's survival and long term growth and health, strategic risk management is primarily concerned with how the Bank relates itself to the environment it operates in, and the choices it makes in response to changes in the environment and on the deployment of capital and resources in ways that create competitive advantage for the Bank as a whole.

As strategic decisions affect the future, an inevitable amount of risk and uncertainty is involved. Inadequate strategic planning or improper implementation of strategies may expose the Bank to significant business and financial losses, and may also affect its reputation and market standing. To reduce the probability that strategic risks will materialize, the Bank analyzes the causes behind significant realized losses in order to develop effective countermeasures on the basis of these insights.

Since strategic risk cannot be directly quantified, the methodology was based on the scenario planning process. The scenario chosen is linked to the changes in net income through variance analysis between the budgeted and actual income statements.

In selecting a scenario, the Bank considered the historical negative variances it had in meeting its key strategic targets. Based on the review of historical variances for the past five years, a scenario the Bank sees happening that might affect the Bank's capital adequacy under the normal course of business is when the Bank does not hit its budgeted consumer loans (-27%).

HISTORICAL VARIANCE					
Actual Consumer Loan Levels vs Plan (current portion only) in PHP millions					
Year	Actual	Plan	Variance	% Variance	
2013	3,200.3	3,547.6	(347.4)	-9.79%	
2012	3,954.5	4,883.0	(928.5)	-19.02%	
2011	4,393.5	5,631.9	(1,238.4)	-21.99%	
2012	4,599.3	6,300.5	(1,701.2)	-27.00%	
2013	4,900.9	6,356.0	(1,455.1)	-22.89%	
Minimum % variance vs plan: -9.79%			Maximum % variance vs plan: -27.00%		

Based on the results of the scenario planning, it appears that if consumer loan level is not met by -27%, the Bank's total CAR will drop to 19.49% in 2014. See results below:

<b>CONSUMER LOANS NOT MET</b>						
<b>Under the Framework</b>	<b>Basel II</b>	<b>Basel III</b>	<b>With Buffer</b>	<b>Capital Adequacy Ratio</b>		
				<b>30-Sept-13</b>	<b>31-Dec-13</b>	<b>2014</b>
Total CET 1 Ratio	-	6.00%	8.50%	-	-	-
Total Tier 1 Ratio	5.00%	7.50%	10.00%	26.42%	28.94%	23.34%
Total CAR	10.00%	10.00%	12.50%	25.09%	27.50%	22.38%
<b>Under ICAAP (BSP Circular 639)</b>				<b>30-Sept-13</b>	<b>31-Dec-13</b>	<b>2014</b>
Total CET 1 Ratio				-	-	-
Total Tier 1 Ratio				23.57%	25.97%	20.33%
Total CAR				22.38%	24.68%	19.49%
<b>Performance Indicators</b>				<b>30-Sept-13</b>	<b>31-Dec-13</b>	<b>2014</b>
Net Income (in Php MM)				335.89	501.47	369.74
ROE				7.60%	8.74%	5.84%
Total Assets (in PHP MM)				38,180.05	40,212.88	43,194.04
Total Capital (in Php MM)				5,351.04	5,527.36	6,507.03

Then using the given scenario, reverse computation was done by using the stressed capital to derive the stressed RWA; then the difference of this stressed RWA and the base RWA would be set as the measure for Strategic Risk.

<b>CONSUMER LOANS NOT MET</b>		
<b>Strategic Risk – Capital Charge (in Php MM)</b>	<b>2012</b>	<b>2013</b>
<b>Stressed Capital</b>	4,611.9	4,910.6
Base RWA (without Strategic RWA)	18,688.7	24,190.0
Stressed CAR (Stressed Capital/Base RWA)	24.68%	20.30%
Base Qualifying Capital	4,611.9	5,042.7
Derived RWA	18,688.7	24,841.0
<b>Strategic RWA (Derived RWA – Base RWA)</b>	-	651.0
Capital Charge (Derived)	-	65.1
<b>Total RWA (including Strategic RWA)</b>	<b>18,688.7</b>	<b>24,190.0</b>

The risk assessment methodology presented and explained above provides also the first line risk mitigation process of the Bank. Because the Board is apprised of the current strategies, quantifications of certain financial and non-financial ratios and variable, as well as the analyses and evaluations of Senior Management and the Enterprise Risk Management Unit, the Board can be able to provide guidance on how to proceed with such strategies, given their embedded risks. Hence, the Board may be able to mitigate certain risks by either strategy adjustments or simply abolishing strategies.

# Capital Adequacy and Capital Management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements, as mandated by the BSP, and the Group maintains healthy capital ratios in order to support its business and to maximize shareholder's value. Presented below are the risk-based capital components, including regulatory deductions, on a parent and consolidated basis:

Qualifying Capital in Php Million	Consolidated		Parent Company		
	2013	2012	2013	2012	2011
<b>Tier 1 Capital</b>					
Paid-up common stock	436.84	436.84	436.84	436.84	436.84
Paid-up perpetual and non-cumulative preferred stock	5,202.46	5,202.46	5,202.46	5,202.46	5,202.46
Additional paid-in-capital	0.00	0.00	0.00	0.00	113.94
Retained Earnings	(48.26)	(40.10)	(48.26)	(40.10)	(553.89)
Undivided profits	463.96	0.00	358.65	0.00	0.00
Cumulative Foreign Currency Translation	(89.59)	(5.60)	(89.59)	(5.60)	(1.13)
Minority Interest	0.00	0.00	0.00	0.00	0.00
Less: Unsecured DOSRI	(0.08)	0.00	0.00	0.00	0.00
Deferred income tax	(75.49)	(54.62)	(75.49)	(54.62)	(54.63)
Goodwill	(563.08)	(578.78)	(318.75)	(324.32)	(321.85)
Total Tier 1 Capital	5,326.76	4,960.21	5,465.85	5,214.67	4,821.74
Less: Investment in Subsidiary - 50%	0.00	0.00	(607.89)	(620.33)	0.00
Net Tier 1 Capital	5,326.76	4,960.21	4,857.96	4,594.34	4,821.74
<b>Tier 2 Capital</b>					
Redeemable preferred stock	30.70	0.00	0.00	0.00	0.00
General Loan Loss Provision (GLLP)	163.23	144.58	151.81	136.07	144.86
Unrealized Gain AFS Equity Securities	0.00	0.00	0.00	0.00	0.00
Total Tier 2 Capital	193.93	144.58	151.81	136.07	144.86
Less: Investment in Subsidiary - 50%	0.00	0.00	(151.81)	(136.07)	0.00
Net Tier 2 Capital	193.93	144.58	0.00	0.00	144.86
Total Gross Qualifying Capital	5,520.70	5,104.79	5,617.66	5,350.74	4,966.60
Less: Total Investment in Subsidiary	0.00	0.00	(759.70)	(756.40)	0.00
<b>Total Qualifying Capital</b>	<b>5,520.70</b>	<b>5,104.79</b>	<b>4,857.96</b>	<b>4,594.34</b>	<b>4,966.60</b>

Note: Deductions to Tier 2 Capital is capped at the Total Amount of Gross Tier 2 Capital. Any excess shall be deducted from Tier 1 Capital.

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. 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.

Risk-based Capital Ratios are as follows:

Qualifying Capital in Php Million	Consolidated		Parent Company		
	2013	2012	2013	2012	2011
Tier 1 Capital	5,326.76	4,960.21	5,465.85	5,214.67	4,821.74
Tier 2 Capital	193.93	144.58	151.81	136.07	144.86
Gross Qualifying Capital	5,520.70	5,104.79	5,617.66	5,350.74	4,966.60
Less : required deductions	0.00	0.00	759.70	756.40	0.00
Total Qualifying Capital	5,520.70	5,104.79	4,857.96	4,594.34	4,966.60
Risk Weighted Assets	23,845.59	19,503.36	21,409.54	17,464.88	17,048.30
<b>Tier 1 Capital Ratio</b>	<b>22.34%</b>	<b>25.43%</b>	<b>22.69%</b>	<b>26.31%</b>	<b>28.28%</b>
<b>Capital Adequacy Ratio</b>	<b>23.15%</b>	<b>26.17%</b>	<b>22.69%</b>	<b>26.31%</b>	<b>29.13%</b>

The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital, which comprises of paid-up common and perpetual and non-cumulative preferred stock, additional paid-in capital, retained earnings, surplus including current year profit, minority interest less required deductions such as unsecured accommodations to DOSRI, deferred income tax and goodwill. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes net unrealized gains and losses on AFS equity securities and general loan loss provision.

The capital requirements for Credit, Market and Operational Risks are provided below, on a solo and consolidated basis:

Capital Requirement in Php Million	Consolidated		Parent Company		
	2013	2012	2013	2012	2011
Credit Risk	1,971.00	1,554.17	1,756.32	1,372.96	1,445.65
Market Risk	128.86	161.40	128.77	161.40	45.95
Operational Risk	284.70	234.77	255.86	212.13	213.23
<b>Total Capital Requirements</b>	<b>2,384.56</b>	<b>1,950.34</b>	<b>2,140.95</b>	<b>1,746.49</b>	<b>1,704.83</b>

## Credit Risk

The Group uses the Standardized Approach under Circular 538 in computing its exposure to credit risk. Credit Risk-Weighted Asset (CRWA) is an important risk measure of the Group, primarily because it is used to determine the Group's minimum capital requirement for credit which is defined as 10% of the total CRWA. The table below provides the details of the total CRWA of the Bank on consolidated and solo basis:

Credit Risk-Weighted Assets (In Php Million)	Consolidated		Parent Company		
	2013	2012	2013	2012	2011
Credit Risk-Weighted Assets					
Total Risk Weighted On-Balance Sheet Assets	19,644.53	15,431.05	17,497.74	13,618.97	14,281.96
Total Risk-Weighted Off-Balance Sheet Assets	65.51	107.28	65.51	107.28	200.15
Total Counterparty Risk-Weighted Assets in the Banking Book (Derivatives and Repo-style Transactions)				3.35	3.35
Total Gross Risk-Weighted Assets	19,710.04	15,541.68	17,563.25	13,729.59	14,485.46
Deductions:			-	-	(28.92)
General loan loss provision [in excess of the amount permitted to be included in Upper Tier 2			-	-	(28.92)
Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board					
<b>TOTAL CREDIT RISK-WEIGHTED ASSETS</b>	<b>19,710.04</b>	<b>15,541.68</b>	<b>17,563.25</b>	<b>13,729.59</b>	<b>14,456.54</b>

Presented below is the total credit exposure, on a solo and consolidated basis, broken down by type of exposures and risk buckets:

ON-BALANCE SHEET ASSETS (In Php Million)	2013 (Consolidated)											
	Exposures, Net of Specific Provisions		Exposures Covered by Credit Risk Mitigation		Total Credit Risk Exposure after Risk Mitigation		Risk Weights					Total Credit Risk Weighted Assets
					0 %	20 %	50 %	75 %	100 %	150 %		
Cash on Hand	1,144.43	-	1,144.43	-	1,144.43	-	-	-	-	-	1,144.43	
Checks and Other Cash Items	-	-	-	-	-	-	-	-	-	-	-	
Due from Bangko Sentral ng Pilipinas (BSP)	11,429.31	-	11,429.31	-	11,429.31	-	-	-	-	-	11,429.31	
Due from Other Banks	2,125.16	-	2,125.16	-	0.40	938.64	-	1,186.11	-	-	2,125.16	
Available-for-Sale (AFS) Financial Assets	5,832.29	-	5,832.29	-	2,671.40	-	-	3,160.89	-	-	5,832.29	
Held-to-Maturity (HTM) Financial Assets	75.49	-	75.49	-	-	-	-	75.49	-	-	75.49	
Unquoted Debt Securities Classified as Loans	561.56	-	561.56	-	425.82	-	-	135.74	-	-	561.56	
Loans and Receivables	-	-	-	-	-	-	-	-	-	-	-	
Interbank Term Loans Receivable	99.36	-	99.36	-	99.36	-	-	-	-	-	99.36	
Loans and Receivables - Others	-	-	-	-	-	-	-	-	-	-	-	
Non-defaulted exposures	-	-	-	-	-	-	-	-	-	-	-	
Corporates	11,053.55	-	11,053.55	-	4,519.76	-	-	5,259.79	-	-	9,779.55	
Microfinance/Small and Medium Enterprises	1,226.16	-	1,226.16	-	-	-	1,226.16	-	-	-	1,226.16	
Loans to individuals for Housing Purposes	2,778.07	-	2,778.07	-	2,778.07	-	-	-	-	-	2,778.07	
Loans to individuals	2,837.20	-	2,837.20	-	27.11	-	-	2,810.09	-	-	2,810.09	
Defaulted exposures	-	-	-	-	-	-	-	-	-	-	-	
Housing Loans	86.79	-	86.79	-	-	-	-	86.79	-	-	86.79	
Other than Housing Loans	315.15	-	315.15	-	-	-	-	-	315.15	-	315.15	
Loans and Receivables Arising from	3,000.93	-	3,000.93	-	3,000.93	-	-	-	-	-	3,000.93	
Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing	-	-	-	-	-	-	-	-	-	-	-	
Transactions	-	-	-	-	-	-	-	-	-	-	-	
Sales and Contract Receivable (SCR)	59.83	-	59.83	-	-	-	-	27.79	-	-	59.83	
Real and Other Properties Acquired	246.95	-	246.95	-	-	-	-	-	-	-	246.95	
Total Exposures Excluding Other Assets	41,571.12	-	41,571.12	-	5,045.34	3,716.71	1,226.16	12,742.69	594.14	-	41,571.12	
Other Assets	2,223.58	-	2,223.58	-	-	-	-	2,223.58	-	-	2,223.58	
Total Exposures Including Other Assets	45,095.81	-	43,794.71	1,301.11	5,045.34	3,716.71	1,226.16	14,966.27	594.14	-	43,794.71	
<b>Total Risk-weighted On Balance Sheet Assets not covered by Credit Risk Mitigants</b>	-	-	-	-	<b>1,009.07</b>	<b>1,858.35</b>	<b>919.62</b>	<b>14,966.27</b>	<b>891.21</b>	-	<b>19,644.53</b>	
Total Exposures Covered by Credit Risk Mitigation	-	-	-	-	-	-	-	-	-	1,301.11	-	
<b>Total Risk-weighted On Balance Sheet Assets covered by Credit Risk Mitigants</b>	-	-	-	-	-	-	-	-	-	-	-	
<b>TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS</b>	-	-	-	-	<b>1,009.07</b>	<b>1,858.35</b>	<b>919.62</b>	<b>14,966.27</b>	<b>891.21</b>	-	<b>19,644.53</b>	

2013 (Parent)

ON-BALANCE SHEET ASSETS (In Php Million)	Exposures, Net of Specific Provisions	Exposures		Risk Weights							Total Credit Risk Weighted Assets
		Covered by Credit Risk Mitigation	Total Credit Risk Exposure after Risk Mitigation	0 %	20 %	50 %	75 %	100 %	150 %		
Cash on Hand	1,109.12	-	1,109.12	1,109.12							1,109.12
Checks and Other Cash Items	-	-	-	-							-
Due from Bangko Sentral ng Pilipinas (BSP)	10,278.96	-	10,278.96	10,278.96							10,278.96
Due from Other Banks	2,004.52	-	2,004.52	2,004.52	0.40	938.64		1,065.47			2,004.52
Available-for-Sale (AFS) Financial Assets	5,832.29	-	5,832.29	2,671.40				3,160.89			5,832.29
Held-to-Maturity (HTM) Financial Assets	75.49	-	75.49	75.49				75.49			75.49
Unquoted Debt Securities Classified as Loans	561.56	-	561.56	561.56	425.82			135.74			561.56
Loans and Receivables	-	-	-	-							-
Interbank Term Loans Receivable	99.36	-	99.36	99.36							99.36
Loans and Receivables - Others	-	-	-	-							-
Non-defaulted exposures	-	-	-	-							-
Corporates	11,053.55	1,274.00	9,779.55	4,519.76				5,259.79			9,779.55
Microfinance/Small and Medium Enterprises	1,039.28	-	1,039.28	1,039.28				1,039.28			1,039.28
Loans to individuals for Housing Purposes	2,772.63	-	2,772.63	2,772.63				2,772.63			2,772.63
Loans to Individuals	2,143.04	16.11	2,126.93	2,126.93				2,126.93			2,126.93
Defaulted exposures	-	-	-	-							-
Housing Loans	74.93	-	74.93	74.93				74.93			74.93
Other than Housing Loans	160.07	-	160.07	160.07					160.07		160.07
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	3,000.93	-	3,000.93	3,000.93							3,000.93
Sales and Contract Receivable (SCR)	10.91	-	10.91	10.91				4.42			10.91
Real and Other Properties Acquired	94.81	-	94.81	94.81							94.81
Total Exposures Excluding Other Assets	40,311.44	1,290.11	39,021.33	17,060.41	5,045.34	3,711.27	1,039.28	11,903.65	261.37		39,021.33
Other Assets	1,557.87	-	1,557.87	1,557.87				1,557.87			1,557.87
Total Exposures Including Other Assets	41,869.31	1,290.11	40,579.20	17,060.41	5,045.34	3,711.27	1,039.28	13,461.52	261.37		40,579.20
<b>Total Risk-weighted On Balance Sheet</b>	-	-	-	-	<b>1,009.07</b>	<b>1,855.63</b>	<b>779.46</b>	<b>13,461.52</b>	<b>392.05</b>		<b>17,497.74</b>
Assets not covered by Credit Risk Mitigants	-	-	-	-	-	-	-	-	-	-	-
Total Exposures Covered by Credit Risk Mitigation	-	-	1,290.11	1,290.11							
<b>Total Risk-weighted On Balance Sheet</b>	-	-	-	-	-	-	-	-	-	-	-
Assets covered by Credit Risk Mitigants	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS</b>	-	-	-	-	<b>1,009.07</b>	<b>1,855.63</b>	<b>779.46</b>	<b>13,461.52</b>	<b>392.05</b>		<b>17,497.74</b>

2012 (Consolidated)

ON-BALANCE SHEET ASSETS (In Php Million)	Exposures, Net of Specific Provisions	Exposures Cov- ered by Credit Risk Mitigation	Total Credit Risk Exposure after Risk Mitigation	Risk Weights					Total Credit Risk Weighted Assets
				0 %	20 %	50 %	75 %	100 %	
Cash on Hand	1,038.77		1,038.77	1,038.77					1,038.77
Checks and Other Cash Items	-		-						-
Due from Bangko Sentral ng Pilipinas (BSP)	8,074.85		8,074.85	8,074.85					8,074.85
Due from Other Banks	2,164.26		2,164.26	57.60	283.30		1,823.36		2,164.26
Available-for-Sale (AFS) Financial Assets	7,486.78		7,486.78	4,946.84	168.48		2,371.46		7,486.78
Held-to-Maturity (HTM) Financial Assets	-		-						-
Unquoted Debt Securities Classified as Loans	561.56		561.56	168.48			393.08		561.56
Loans and Receivables	-		-						-
Interbank Term Loans Receivable	100.38		100.38	100.38					100.38
Loans and Receivables - Others	-		-						-
Non-defaulted exposures	-		-						-
Corporates	10,841.70	2,488.24	8,353.46	5,859.50			2,493.96		8,353.46
Microfinance/Small and Medium Enterprises	1,404.20		1,404.20			1,404.20			1,404.20
Loans to individuals for Housing Purposes	2,776.57	212.85	2,563.72	2,563.72					2,563.72
Loans to Individuals	2,016.73	22.44	1,994.28			1,994.28			1,994.28
Defaulted exposures	-		-						-
Housing Loans	93.08		93.08			93.08			93.08
Other than Housing Loans	375.69		375.69			375.69			375.69
Loans and Receivables Arising from	-		-						-
Repurchase Agreements, Certificates of	-		-						-
Assignment/Participation with Recourse,	-		-						-
and Securities Lending and Borrowing	-		-						-
Transactions	-		-						-
Sales and Contract Receivable (SCR)	62.65		62.65			59.67		2.98	62.65
Real and Other Properties Acquired	242.91		242.91					242.91	242.91
Total Exposures Excluding Other Assets	34,516.58		34,516.58	14,060.46	6,354.43	2,847.02	1,404.20	9,228.89	34,516.57
Other Assets	1,522.24		1,522.24					1,522.24	1,522.24
Total Exposures Including Other Assets	38,762.35	2,723.53	36,038.82	14,060.46	6,354.43	2,847.02	1,404.20	10,751.13	36,038.82
<b>Total Risk-weighted On Balance Sheet</b>	-		-	<b>1,270.89</b>	<b>1,423.51</b>	<b>1,053.15</b>	<b>10,751.13</b>	<b>932.37</b>	<b>15,431.05</b>
<b>Assets not covered by Credit Risk Mitigants</b>	-		-	-	-	-	-	-	-
Total Exposures Covered by Credit Risk Mitigation			2,723.53						
<b>Total Risk-weighted On Balance Sheet</b>	-		-	-	-	-	-	-	-
<b>Assets covered by Credit Risk Mitigants</b>	-		-	-	-	-	-	-	-
<b>TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS</b>	-		-	<b>1,270.89</b>	<b>1,423.51</b>	<b>1,053.15</b>	<b>10,751.13</b>	<b>932.37</b>	<b>15,431.05</b>

2012 (Parent Company)

ON-BALANCE SHEET ASSETS (In Php Million)	Exposures, Net of Specific Provisions	Total Credit Risk		Risk Weights					Total Credit Risk Weighted Assets
		Exposure after Risk Mitigation	Total Exposure after Risk Mitigation	0 %	20 %	50 %	75 %	100 %	
Cash on Hand	988.36	988.36	988.36	988.36					988.36
Checks and Other Cash Items	-	-	-						-
Due from Bangko Sentral ng Pilipinas (BSP)	7,350.14	7,350.14	7,350.14	7,350.14					7,350.14
Due from Other Banks	1,992.22	1,992.22	1,992.22	1,992.22	57.60	283.30		1,651.31	1,992.22
Available-for-Sale (AFS) Financial Assets	7,486.78	7,486.78	7,486.78	4,946.84	168.48			2,371.46	7,486.78
Held-to-Maturity (HTM) Financial Assets	-	-	-						-
Unquoted Debt Securities Classified as Loans	561.56	561.56	561.56		168.48			393.08	561.56
Loans and Receivables	-	-	-						-
Interbank Term Loans Receivable	100.38	100.38	100.38	100.38					100.38
Loans and Receivables - - Others	-	-	-						-
Non-defaulted exposures	-	-	-						-
Corporates	10,841.70	2,488.24	8,353.46		5,859.50			2,493.96	8,353.46
Microfinance/Small and Medium Enterprises	994.61		994.61				994.61		994.61
Loans to individuals for Housing Purposes	2,758.55	199.86	2,558.69			2,558.69			2,558.69
Loans to Individuals	1,700.27	22.44	1,677.83					1,677.83	1,677.83
Defaulted exposures	-	-	-						-
Housing Loans	90.06	90.06	90.06					90.06	90.06
Other than Housing Loans	259.44	259.44	259.44					259.44	259.44
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	-	-	-						-
Sales and Contract Receivable (SCR)	14.71	14.71	14.71					11.74	14.71
Real and Other Properties Acquired	98.05	98.05	98.05					98.05	98.05
Total Exposures Excluding Other Assets	32,526.28	32,526.28	32,526.28	13,285.34	6,354.43	2,841.99	994.61	8,689.44	32,526.27
Other Assets	950.99	950.99	950.99					950.99	950.99
Total Exposures Including Other Assets	36,187.80	2,710.54	33,477.26	13,285.34	6,354.43	2,841.99	994.61	9,640.43	33,477.26
<b>Total Risk-weighted On Balance Sheet Assets not covered by Credit Risk Mitigants</b>	-	-	-	<b>1,270.89</b>	<b>1,421.00</b>	<b>1,421.00</b>	<b>745.95</b>	<b>9,640.43</b>	<b>540.70</b>
Total Exposures Covered by Credit Risk Mitigation			2,710.54						
<b>Total Risk-weighted On Balance Sheet Assets covered by Credit Risk Mitigants</b>	-	-	-	-	-	-	-	-	-
<b>TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS</b>	-	-	-	<b>1,270.89</b>	<b>1,421.00</b>	<b>745.95</b>	<b>9,640.43</b>	<b>540.70</b>	<b>13,618.97</b>

Credit equivalent amount for off-balance sheet items, broken down by type of exposures (in Php million):

<b>Off-balance Sheet Assets</b>	Consolidated			
	2013		2012	
	Notional Principal	Credit Equivalent	Notional Principal	Credit Equivalent
Direct Credit Substitutes	18.18	18.18		
Transaction-related contingencies				
Trade-related contingencies arising from movement of goods	236.65	47.33	536.39	107.28
Other commitments (which can be done unconditionally cancelled at any time by the bank without prior notice)	8,043.98	-	16,011.06	-
<b>Total Notional Principal and Credit Equivalent Amount</b>	<b>8,298.81</b>	<b>65.51</b>	<b>16,547.45</b>	<b>107.28</b>

<b>Off-balance Sheet Assets</b>	Parent					
	2013		2012		2011	
	Notional Principal	Credit Equivalent	Notional Principal	Credit Equivalent	Notional Principal	Credit Equivalent
Direct Credit Substitutes	18.18	18.18			32.55	32.55
Transaction-related contingencies	-	-	-	-	-	-
Trade-related contingencies arising from movement of goods	236.65	47.33	536.39	107.28	837.96	167.59
Other commitments (which can be done unconditionally cancelled at any time by the bank without prior notice)	8,041.93	-	16,007.17	-	20,759.15	-
<b>Total Notional Principal and Credit Equivalent Amount</b>	<b>8,296.76</b>	<b>65.51</b>	<b>16,543.56</b>	<b>107.28</b>	<b>21,629.66</b>	<b>200.15</b>

Credit equivalent amount for counterparty risk-weighted items, broken down by type of exposures (in Php million)

<b>COUNTERPARTY RISK-WEIGHTED ASSETS IN THE BANKING BOOK (In Php Million)</b>	Consolidated			
	2013		2012	
	Notional Principal	Credit Equivalent	Notional Principal	Credit Equivalent
Derivatives Exposures				
Exchange Rate Contracts			335.15	16.76
<b>Total Notional Amount</b>	<b>-</b>	<b>-</b>	<b>335.15</b>	<b>16.76</b>
<b>Total Counterparty Risk-Weighted Assets of Derivative Transaction</b>			<b>3.35</b>	

<b>COUNTERPARTY RISK-WEIGHTED ASSETS IN THE BANKING BOOK (In Php Million)</b>	Parent					
	2013		2012		2011	
	Notional Principal	Credit Equivalent	Notional Principal	Credit Equivalent	Notional Principal	Credit Equivalent
Derivatives Exposures						
Exchange Rate Contracts			335.15	16.76	335.15	16.76
<b>Total Notional Amount</b>	<b>-</b>	<b>-</b>	<b>335.15</b>	<b>16.76</b>	<b>335.15</b>	<b>16.76</b>
<b>Total Counterparty Risk-Weighted Assets of Derivative Transaction</b>			<b>3.35</b>		<b>3.35</b>	

Pursuant to the Group's policy, the credit ratings given by foreign and local rating agencies were used to determine the credit risk weights of On-balance sheet, Off-balance sheet and counter party exposures.

For all rated credit exposures, regardless of currency, the Group used the ratings of Standard & Poor's (S&P); Moody's and Fitch Ratings. On the other hand, the credit rating given by Phil Ratings was used for Unquoted Debt Securities, certain Corporate Bonds, Peso-denominated exposures and loans to rated domestic private entities.

The Group neither uses credit derivatives as credit risk mitigant nor provides credit protection through credit derivatives. The Group has no outstanding exposure to securitization structures and other types of structured products issued or purchased by the Group.

## Market Risk-Weighted Assets

The Standardized Approach is utilized by the Group in determining its market risk-weighted assets. As at the end of December 2013, computed total market risk-weighted assets on consolidated basis stood at Php1.339 billion. This consisted of Php0.802 billion interest rate risk exposure and Php0.487 billion foreign exchange exposures.

Market Risk-Weighted Assets (in Php million)	Consolidated		Parent		
	2013	2012	2013	2012	2011
<b>Interest Rate Exposures</b>					
Specific Risk	-	5.08	-	5.08	-
General Market Risk	-	-	-	-	-
Php	60.81	98.25	60.81	98.25	-
USD	3.35	3.81	3.35	3.81	-
Total Capital Charge	64.16	107.15	64.16	107.15	-
Adjusted Capital Charge	80.20	133.93	80.20	133.93	-
<b>Total Risk-Weighted Interest Rate Exposures</b>	<b>801.96</b>	<b>1,339.33</b>	<b>801.96</b>	<b>1,339.33</b>	<b>-</b>
<b>Total Risk-Weighted Equity Exposures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Foreign Exchange Exposures</b>					
Total Capital Charge	38.93	21.98	38.86	21.98	36.76
Adjusted Capital Charge	48.66	27.47	48.58	27.47	45.951
<b>Total Risk-Weighted Foreign Exchange Exposures</b>	<b>486.61</b>	<b>274.70</b>	<b>485.75</b>	<b>274.70</b>	<b>459.510</b>
<b>Total Risk-Weighted Exposures on Options</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Market Risk-Weighted Assets</b>	<b>1,288.57</b>	<b>1,614.03</b>	<b>1,287.71</b>	<b>1,614.03</b>	<b>459.51</b>

## Operational Risk-Weighted Assets

The Group uses the basic Indicator approach in computing its operational risk-weighted assets. Operational risk-weighted assets as at the end of December 2013 were computed at Php2.559 billion and Php2.847 billion, on solo and consolidated basis, respectively. In 2012, operational risk-weighted assets were Php2.348 billion and Php2.121 billion, on solo and consolidated basis, respectively.

The Bank employs the various tools of its Operational Risk Management framework to identify high risk areas, loss drivers and trends which could be the basis of priority for operational risk management in order to prevent material failures. These tools include RCSA (Risk Control and Self-Assessment), KRI (Key Risk Indicators), LED (Loss Events Database) and BIA (Business Impact Analysis).

# Corporate Governance

Evolving through uncertainties and rising above the challenges of a competitive and highly regulated industry, not only require a nimble and agile organization, but also one that is run based on a strong corporate governance framework.

Robinsons Bank Corporation is committed to the principles and best practices and standards of corporate governance. The Bank's philosophy is contained in the Corporate Governance Manual and serves as guide in the achievement of its corporate goals. The Bank believes that corporate governance is a necessary component of what constitutes sound strategic business management and undertakes every effort necessary to create awareness within the organization.

While the BSP and SEC only require bank directors to attend corporate governance seminars the Bank finds wisdom in requiring all its directors and members of the management committee (MANCOM) to attend seminars conducted by reputable BSP-accredited service providers. This practice is proof of the bank's commitment to fully comply with and uphold the best practices on good corporate governance.

The Bank's Compliance Unit also regularly updates the Board on recent regulatory issuances of the BSP, SEC, BIR and PDIC covering matters that will affect the bank's operation.

The Bank will continue to send its directors and senior officers to attend training programs and seminars to further improve the corporate governance within the company.

## Board of Directors

The Board of Directors is primarily responsible for creating and enhancing the Bank's long-term shareholder value. Its mandate consists of setting the Bank's strategic business directions, appointing its senior executive officers and approving the appropriate organizational structure, establishing all major policies, overseeing its major risk-taking activities, and monitoring its business and management performance.

The Board is made up of 11 directors who are qualified business professionals with the breadth of expertise required to direct the broad and complex requirements of a financial institution. Currently, there are 5 independent directors whose names and bio-data were duly submitted to the BSP.

The Board directly carries out its primary responsibilities as required by law and through committees and subcommittees for specific areas of focus. The Management Committee approves all major risk taking activities of the Bank, and functions as the Board's operating committee for approval of all major credit risks.

### Other subcommittees are:

The Corporate Governance Committee, which handles all matters relating to corporate governance and compliance; The Risk Management Committee, which focuses on the management of all types of risk; The Audit Committee, which oversees internal operating controls and the quality of compliance thereto.

## Operating Management

The Board delegates to the President and Chief Executive Officer (CEO) the responsibility of managing the Bank and implementing all major business strategies. A group of over a dozen senior officers support the President/CEO in the day-to-day management of the business.

## Bank's Organizational Structure

The Bank's day-to-day affairs are entrusted to a team of seasoned bankers who possess years and years of experience and training in their respective fields of expertise. On top of the management structure is the President and CEO. Under him are Senior Officers composing the Management Committee (MANCOM) who meet on a weekly basis to devise strategies on how to steer the wheel of the Bank as it charts its course.

The Bank also has an Asset Liability Committee (ALCO), which likewise meets every week to attend to the formulation of short and long-term assets and liabilities strategies for the proper management of funding, portfolio, pricing, foreign exchange and budget of the Bank.

The PERCOM or Personnel Committee is responsible for addressing the human resources needs of the Bank and the processing and approving of promotions.

## Compliance System

The Bank's compliance system is a multi-tiered system. The primary level is self-regulation within each work unit by abiding by regulatory issuances, the provisions of the Bank's Corporate Governance Manual, and adhering to company policies and code of conduct. The secondary level is through the audit function, which is performed by the Internal Audit Group and the Compliance Office as well as external auditors appointed by the Board. The Audit Committee of the Board in turn looks into the compliance review by the internal and external auditors.

The Internal Audit Team is tasked with reviewing the extent and quality of the Bank's adherence to all core operating control policies and procedures. This is done through regular periodic review and evaluation of each operating unit including the rendering of scorecards.

Further, it sees to it all hardware, software and telecommunications systems are adequately secured and tightly controlled. Finally, it ensures that there is integrity and effectiveness of internal control in all software application systems prior to implementation.

In view of which, the Bank has commissioned Sycip Gorres Velayo & Co. (SGV) to evaluate its IT System and a proposal to conduct the same on regular basis is being reviewed. Further, a permanent IT Audit Officer and staff have been assigned for the purpose.

The Compliance Office promotes compliance with the regulations of the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), Philippine Deposit Insurance Corp. (PDIC), Bureau of Internal Revenue (BIR) and other regulatory agencies with whom the bank reports to, through active liaison and dialogue with regulators as well as the dissemination of new rules, regulations and directives. The Bank's Compliance Officer actively takes part in the activities and programs of the Association of Bank Compliance Officers (ABComp) and provides continuous in-house training on Anti-Money Laundering.

## Corporate Social Responsibility/ Good Corporate Citizenship

One of the Bank's core values is showing concern for the individual, not only by providing its internal and external customers with excellent service, but also by contributing to the overall betterment of the nation. It ensures its adherence with regulatory requirements of local and national government entities, as well as that of BSP and SEC. It also secures its payment of the correct amount of taxes, on or before the due dates given. In this manner, the Bank is able to uphold the principle of good corporate citizenship.

The Bank has also continued to abide by the policy of supporting worthy endeavor and undertakings designed to assist and alleviate conditions of the less-fortunate and less-privileged sector of society, by implementing and enforcing a number of programs related to this objective. The Robinsons Bank Scholarship Fund with Ateneo de Manila University was launched in 2007, and as of this year, the Bank continues to provide support to two student scholars.

Employees regularly visit home for the aged, to bring smiles to the elderly abandoned men and women. The last center that was visited was the Kanlungan ni Maria in Antipolo, where, other than donating goods to the home, the elderly were treated to free makeover, courtesy of haircutters brought by the employees.

Donations in kind and in cash were also extended to Gawad Kalinga, in support of their program entitled "Sandosenang Sapatos: Take A Step, Turn A Page." This program benefitted both Gawad Kalinga and Saint Francis Learning Center School for the Aetas. The donations were presented to Gawad Kalinga last August 5, 2013, and have since been given to Aeta students for their usage. Other than shoes, the employees donated cash, books, and school materials.

In November 2013, the Bank assisted in bringing relief to Yolanda-hit areas. A total of P752,116.25 in cash donations were transmitted to typhoon victims, while P78,000.00 cash donations were turned over to Department of Education for the rehabilitation of damaged school buildings.

The Bank made exhaustive efforts to locate its employees and families. It ensured that its employees stationed in Tacloban, and in other affected areas, were properly accounted for and were subsequently housed in Cebu and Manila for a duration that was ample for them to recompose themselves from the tragedy that struck them. The Bank also provided a psychologist who conducted a debriefing session for the employees and their family members.

## Succession Plan

It is the policy of the Bank to be prepared for an eventual change in leadership to ensure continuity of all key positions in the organization by identifying, assessing, developing and pipelining talents in order to have the right people in the right place and at the right time for current and future business needs.

The Succession Management Program (SMP) of the Bank is an annual exercise that a) reviews the organization structure; b) identifies new high potential talents and prepares development plans; 3) assesses the skills and competencies of identified successors and reviews their development plans. The SMP covers 22 key positions from Tier 1, Tier 2 and Tier 3. For this requirement, there are 25 identified successors and at the time of review, 6 are categorized as "Ready Now".

The rest are ready from 1 year to 3+ years. At the time of assessment, 3 positions would require the successor to be sourced outside.

Actual replacement is taken from the list of successors for vacancy created by a participant's resignation. An external candidate is considered only when none of the successors' leadership and skills set is ready.

The Succession Management plan is presented to the Chairman, annually.

## Incentive Structure and Remuneration Policy

The Bank's pay structure is designed to match with the playing field that it is in. In view of its recent conversion to KB status, for manpower and talent, it regularly and proactively benchmarks itself with peer, as well as Top tier U/KBs.

Its policy is pay for performance, highlighted by a competitive pay scale, profit sharing (if the Bank makes good) and annual merit-based increases hinged on performance and attainment of the Bank's key result indicators.

In terms of benefits, the Bank provides for SLs/MLs, life and medical insurance, uniform and all government-mandated entitlements. On the financial assistance side, the Bank provides loans to its employees at reasonable rates such as salary, housing and car loans under terms duly approved by the Bank's Board of Directors, the BSP and compliant with the BSP Manual of Regulations.

### Remuneration Policy

Annual compensation consists of guaranteed 15 months pay, inclusive of 13th month pay, mid-year and Christmas Bonuses. The Bank complies with the government mandated premium contributions for SSS, Pag-ibig and Philhealth as well as on the guidelines for overtime and night differential pay.

Employees are provided with several leave benefits. Vacation leave of 15 days and Sick Leave also of 15 days are credited to each regular employee per year with an accumulation feature and eventual cash conversion after exceeding 30 and 60 days, respectively. Accumulated days are converted to cash upon retirement and/or resignation based on the latest daily rate. Employees reviewing for the board examinations may avail of a maximum study leave of 90 days. In compliance with the law, the Bank grants maternity leave, paternity leave and the leave provided in the magna carta for women.

Variable Incentive Pay is provided to the Business Center Heads and Marketing Officers to motivate and reward performance. The variable compensation scheme is based on achievement of the following categories like Average Daily Balance increments on Peso Current and Savings Accounts, Foreign Currency Savings, Foreign Currency Time Deposits, and Number of Deposit Accounts as well as Volume of Loan Bookings.

All regular employees are covered under the Group Life Insurance with coverage amount based on the employee's monthly salary. The plan has a double indemnity provision in case of accidental death.

Rank /Level	Rank & File	Junior Officers	Senior Officers
Coverage (Php)	Up to 750,000	Up to 1,000,000	Up to 2,000,000

The Group Hospitalization Insurance or healthcare coverage assists all regular employees in their medical needs. The coverage of each regular employee ranges from a maximum benefit limit of Php100,000.00 to Php160,000.00, per illness per year. Employees may enroll their immediate members of the family under the group hospitalization plan.

Selected positions like the Business Center Heads, Pick-up tellers, Roving Tellers, Loan Services Assistants, Motorized Collectors are further covered by a Personal Accident Insurance with coverage ranging from Php500,000 to Php1MM in view of the nature of their jobs and the risk they are exposed to.

Employees up to Senior Manager level are provided with sewn uniform to project the professional image of the Bank. To further assist employees in the performance of their function, Hazard pay is provided to Roving Tellers who normally ride the armored cars while the other branch based tellers are provided with the daily teller's allowance.

Meal allowance is given to an employee for an assignment outside of home base in addition to reimbursement of transportation and accommodation expenses.

Employees doing marketing function are allowed to reimburse their marketing expenses as well as communication expenses within the set limits.

Employees are afforded with several financial assistance programs. These loan assistance programs are subject to evaluation and credit limits, capacity to pay, installment to income ratio, and require a co-maker as well as collateral particularly on housing loan and vehicle loans.

The Employee Personal Loan Program (EPLP), available for personal consumption to meet expenses for the medical, maternity, education, emergency and other personal needs of the employee or his immediate family like acquisition of household equipment and appliances, repairs of house and car. The program has just been recently upgraded by increasing the loanable amount to 3 times (3X) the monthly salary of the employee and by reducing the interest rate from 9% to Savings Deposit rate of interest plus 6% which currently stands at 6.25% and extending the maximum term from 24 to 36 months.

The Bank extends housing loans to its employees in its desire to help improve their living standards. The loan may be secured to purchase residential house and lot or condominium/townhouse unit, construct a house, refinance an existing house and lot loan with other financial institution, and to have a major renovation / improvement or expansion of an owned residence.

Maximum loanable amount under the program is 3 times the annual guaranteed salary but not to exceed Php5MM with a maximum term of 20 years. Current interest rate is 9% per annum fixed for the whole term of the loan.

The Vehicle Loan Program is designed to assist eligible employees to purchase brand new or second hand vehicles, car or motorcycle, provided that the unit to be financed is for the personal use of the employee-borrower and his family and not for commercial purposes. The vehicle loan has a maximum loanable amount of Php500,000 for a brand new car and Php125,000 for a brand new motorcycle and maximum term of 5 years and 3 years, respectively. Current interest rate is 6.25% fixed for the term of the loan as recently approved by the Bangko Sentral.

The Car Plan Program is a privilege granted to regular and full time officers of the Bank, with rank of Manager for the Business Center Heads and up, to provide mobility in the conduct of their official function and for their personal use but ownership of the car will be retained by the Bank. Car Plan ceiling for Junior Officers is up to Php550,000.00 while for Senior Officers is up to Php1.6MM. The Bank may assist the officers in their share of the cost of the car with a maximum loan amount of Php500,000.00 payable in 5 years with a current interest rate of 6.25% fixed for the whole term of the loan.

Other than the above loan programs, the Bank facilitates the employees' application of SSS and Pag-ibig loans and the collection of the amortization and remittance to the agencies concerned.

For the year 2013, following are some of the statistics of Employee Personal Loans as well as SSS and Pag-ibig loans processed by the Bank:

Type of Loan	Volume	
	2012	2013
Personal Loans	294	318
SSS Loans	150	178
Pag-ibig Loans	112	138

Employees with at least 10 years of service qualify for the retirement pay under the Bank's Retirement Plan. Mandatory retirement age is 60 years old, hence, those who have reached the age of 60 years are compulsory retired effective the day after their 60th birthday.

### Key Management Personnel

Key Management personnel are those persons having authority and responsibility for planning, directing, organizing and controlling the activities of the Group. The Bank considers the Group Heads to constitute key management personnel. The remuneration package for Key Management Personnel are measured during a one-year performance period at various levels - group, business unit and individual level - by means financial and non-financial performance indicators. Total remuneration of key management personnel are as follows:

	Parent	Subsidiary	Consolidated
2013	39,480,611	15,293,161	55,403,772
2012	46,846,278	14,060,999	60,907,277
2011	33,302,146	-	33,302,146

### Remuneration of Board of Directors

Regular members of the Board of Directors are entitled to a per diem of P500.00 for attendance in each meeting. Five independent Board of Directors receive P12,000 per diem for attendance in each meeting.

Total Directors' fees (Php):

	Parent	Subsidiary	Consolidated
2013	647,352	266,667	914,199
2012	399,000	567,081	966,081
2011	241,000	-	241,000

# Management Oversight of Subsidiary

## Corporate Governance

Pursuant to BSP Circular 749 (Guidelines in Strengthening Corporate governance in BSP Supervised financial Institutions), the immediate implementation of good governance in Legazpi Savings Bank (LSB) is a primary concern. In line with this mandate, on 22 May 2013, organization of board level committees that include Audit Committee, Corporate Governance Committee and Risk Management Committee was approved by the Board. The heads of Audit, Compliance and Risk Management of LSB report to the respective heads of the control groups of the parent company.

Although the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission only require bank directors to attend corporate governance trainings, LSB deems it necessary to require not only its directors but also its Management Committee (MANCOM) members to attend seminars offered by accredited BSP training providers. This practice reflects the Bank's commitment to fully-conform and adhere to the best practices on good corporate governance. LSB shall continue to upgrade its institutional corporate governance practices by sending its directors and senior officers to these seminars and training programs.

## Risk Management

On risk management, considering the continuously evolving complexity of regulatory landscape, including the ICAAP (Internal Capital Adequacy Assessment process), the Risk Management Charter (RMC) of the parent company (RBC) was amended to provide support to LSB. Specifically, the following has been included as one of the core responsibilities of the parent company's RMC:

*"The development and oversight of the risk management program of the Bank, its Trust Unit and its fully-owned subsidiary – The Chief risk Officer (CRO) shall oversee the implementation of the risk management system established by the respective management unit of RBC, its Trust Unit and its subsidiary (LSB).*

RBC and LSB jointly prepared the 2013 consolidated ICAAP document. During the ICAAP, a gap analysis was prepared to determine the lacking as well as the existing LSB risk policies and guidelines that either have to be established or enhanced considering the BSP audit findings and observations.

The parent company has ongoing coordination with LSB for the development of various risk management tools, policies and guidelines covering credit, operations, liquidity, IRRBB and IT risk management. A risk reporting package has been developed by LSB in coordination with the ERMU of the parent company. Excerpt of LSB's risk reporting package is also reported to the RMC of the parent company highlighting on the noted breaches as well as the strategies being taken to address them.

On a regular basis, the CRO of the parent company attends the RMC meetings of LSB. The CRO of the parent company also provides update to the parent company's RMC on the status of LSB's deliverables as enumerated in the 2013 ICAAP document.

## Human Resource Management

To facilitate LSB's aim to implement good governance and ensure that the subsidiary is led by personnel with strong commitment in delivering targets, 5 employees of the Robinsons Bank have been seconded to Legazpi Savings Bank to handle the critical functions, and these are:

- \* President
- \* Chief Operating Officer
- \* Treasurer
- \* Chief Compliance Officer
- \* Audit Head

These employees have relinquished responsibilities and signing authorities in the parent bank. They will continue to be seconded until such time that they will be recalled to handle other posts.

# Legazpi Savings Bank, Inc.

A WHOLLY OWNED SUBSIDIARY OF **ROBINSONSBANK**

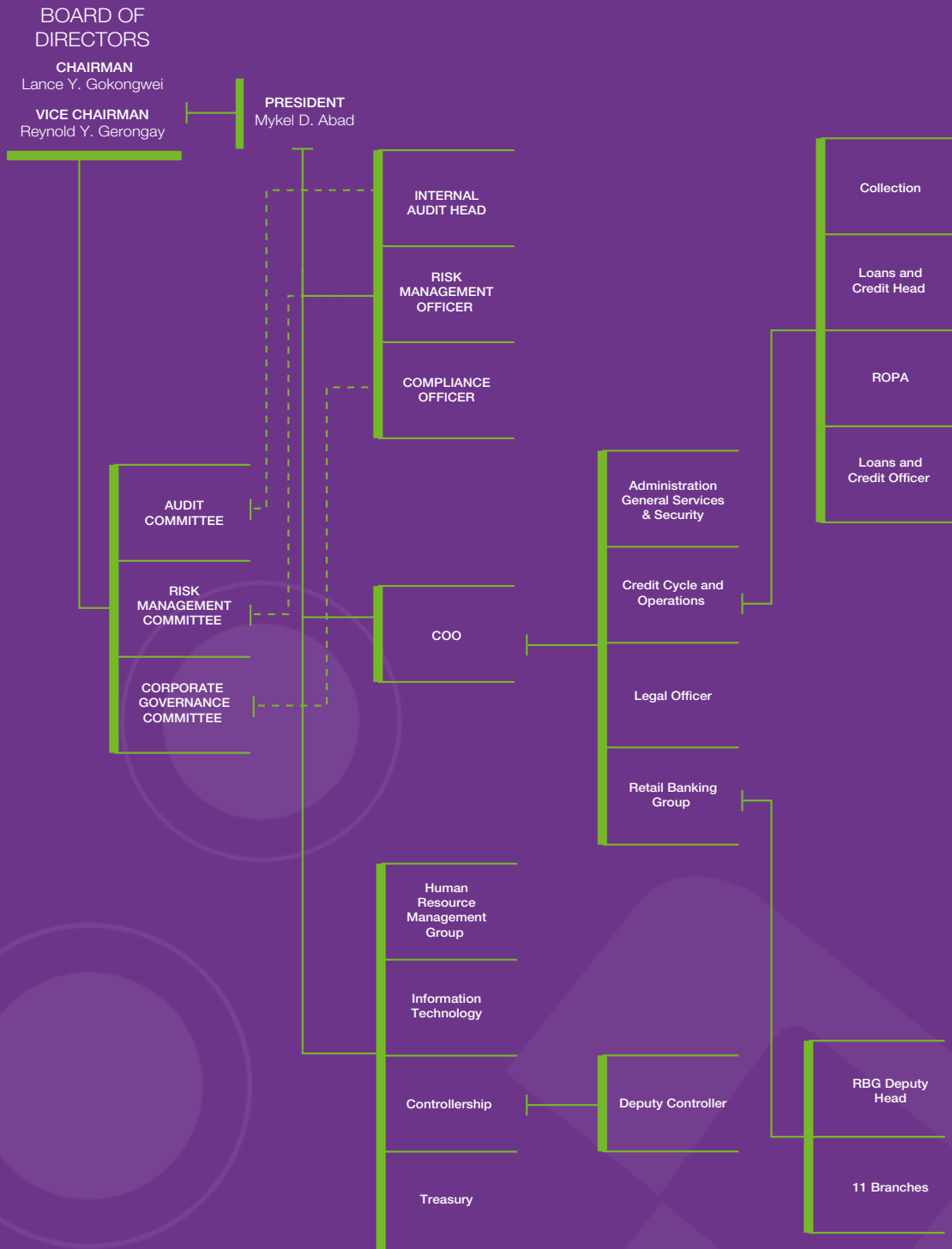
Grand highlight of 2013 was the acquisition of Legazpi Savings Bank (LSB). Legazpi Savings Bank was established in 1976 and through the years, has built a strong regional customer base with its network of 11 branches in the Bicol Region.

The Monetary Board (MB) of the Bangko Sentral ng Pilipinas approved the SPA (share purchase agreement) covering Robinsons Bank Corp.'s (RBC) acquisition of Legazpi Savings Bank (LSB) on December 26, 2012. LSB is a thrift bank based in Legazpi City.

The investment in LSB enables Robinsons Bank to utilize its capacity and branch network as a vehicle for countryside banking and microfinance lending.

While the green light to acquire a LSB was secured from the Monetary Board last December 26, 2012, effective control and management was realized in January 2013. After the take-over, LSB's newly elected Board of Directors established board level committees to foster good governance. This major initiative is pursuant to BSP Circular 749, Guidelines in Strengthening Corporate Governance in BSP Supervised financial Institutions.

# Table of Organization



## LSB Board of Directors

**LANCE Y. GOKONGWEI**  
Chairman

**REYNOLD Y. GERONGAY**  
Vice Chairman

**MYKEL D. ABAD**  
Director/President

**PEDRO T. BOYLES**  
Director

**ANGELITO V. EVANGELISTA**  
Director

**IRMA D. VELASCO**  
Director

**ROSARIO C. MARCELO**  
Director

**ERLINDA O. DEL VILLAR**  
Corporate Secretary

**EMMANUEL C. ROJAS\***  
Independent Director

**VICTOR V. LAYNES**  
Independent Director

## LSB Senior Officers

**MYKEL D. ABAD**  
President

**KAREEN R. VILLAREAL**  
Chief Compliance Officer

**LUAN O. NEW, JR.**  
VP - Chief Operating Officer

**HENRIETTA P. BRAZAL**  
Human Resource Management Group

**MA. TERESA P. SANCHEZ**  
FVP - Treasurer

**ADRIAN T. LLANA**  
Credit Cycle and Operations Head

**MA. SOCORRO S. LIGANOR**  
AVP - Retail Banking Group Head

**JASON-DENNIS R. SAMBITAN**  
Information Technology Department Head

**ERLINDA O. DEL VILLAR**  
AVP - Controller

**JUDEX DONNEL G. LLAMOSO**  
Risk Management Officer

**JUDY H. LOGRONIO**  
Deputy Head Retail Banking Group

**ATTY. ZALMAN D. UDDIN**  
Legal Unit Officer

**JOHN I. BAÑARES**  
Internal Audit Head

**JEROME REGALADO**  
Administration, General Services and Security

\*Resigned and replaced by Mr. Hermogenes S. Roxas last 15 January 2014 Board of Directors meeting.

# Operational Highlights

On January 2013, the new management under Robinsons Bank Corporation formally took over the operations of Legazpi Savings Bank, Inc (LSB) with the vision of utilizing the capacity and branch network of LSB as a vehicle for countryside banking and microfinance lending.

## Corporate Governance Enhancements

After the take-over by RBC, the newly elected Board of Directors established board level committees to foster good governance. Immediately thereafter, the new management formulated strategic initiatives aimed at turning the bank around the soonest possible time.

The Bank's overall strategy is aggressive business growth, supported by automation and infrastructure while undergoing intensive housekeeping.

The Bank's new management ensured that key functions will be led by leaders who can deliver and will implement goal congruence across the organization. In addition, the bank's functional organization was also assessed in order to contain "must keep" employees and re-deploy or reduce redundancies. As a result, manpower complement was trimmed down from 167 to a more manageable 127 employees, excluding the 5 seconded officers from RBC.

## Intensive Business Growth

The Bank's initial move was to reduce the interest rates for the high cost deposits to a blended average of 3.088% as compared to the high blended rate of 5.6% for the year 2012. This immediately brought down the bank's interest cost while keeping the rates still at par with industry.

The reduction in high cost deposits was also coupled with an intensive marketing of high yielding consumer loans in particular personal loans to professionals (e.g., teachers, other salaried employees), while maintaining its commercial and SME, and microfinance loan portfolio. This brought up the bank's net interest margin from 3.22% in January 2013 to 4.52% in December 2013. The bank aims to go full blast in SME and Microfinance lending next year.

Jewelry Loans was also introduced late in the year. The new product gave way for the Bank to become the first bank in Bicol to offer a multi-purpose loan facility that is secured by jewelry or gold items. The product was piloted by Legazpi, Tabaco, Sorsogon, and Daet Branches.

## Automation/ Infrastructure

Management recognizes that the intensive business growth strategy requires automation and infrastructure support. Thus, the Bank acquired Byte Per Byte Software Center Systems to replace its internally developed systems. Byte-Per-Byte is a fully integrated system with the following modules:

1. SavePlus Banking System – provides a comprehensive solution for the bank's savings and demand deposit transactions.
2. Webloan System – a web-based loan system which also includes a Customer Information System (CIS) which can be integrated with the customer deposit information in the SavePlus system.
3. GL.Net – handles the recording and reporting of the Bank's bookkeeping and accounting system.

Systems orientation was conducted to enable end users to familiarize themselves with the new system. By the end of the year, SavePlus is up and running while conversion and parallel run is being undertaken for both the Webloan and GL Net System, respectively.

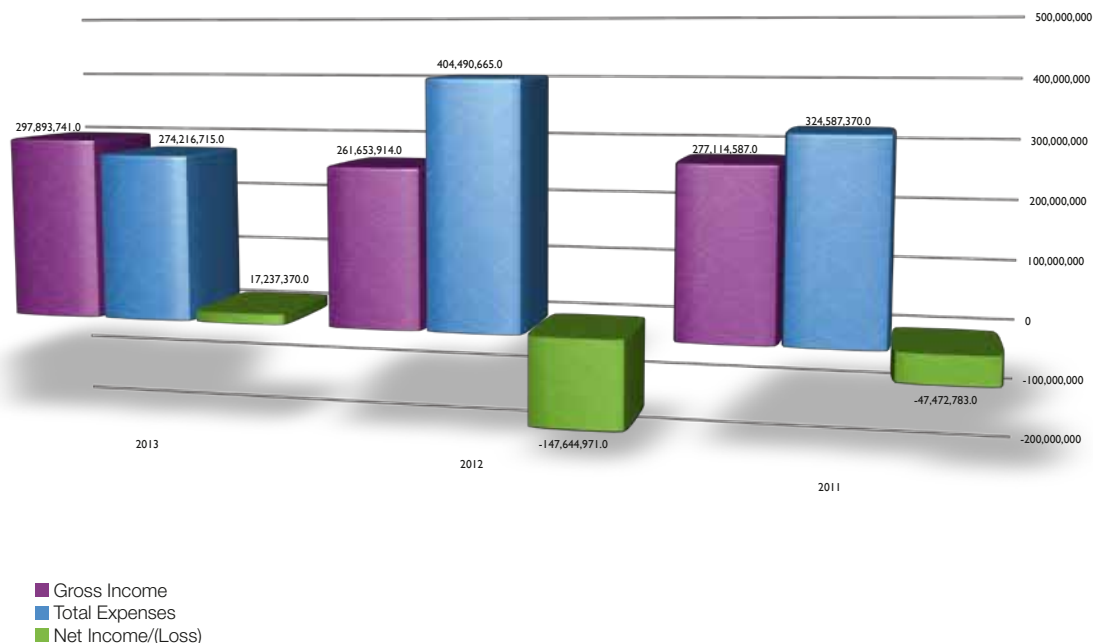
## Intensive Housekeeping

In order to improve the balance sheet and operational efficiency of the Bank, the following housekeeping initiatives were implemented within the year:

1. Ongoing legal actions and account restructuring were forged to lower down non-performing assets.
2. The bank sold a number of long-outstanding ROPA and earned gains from its sale.
3. Collection efforts were intensified resulting in reduction of non-performing loans.
4. The Risk Management Unit was established and operationalized. Risk tolerance limits were set and a risk reporting package to cover Credit and Liquidity Risks were approved by the Board.
5. The Systems and Methods Unit continuous to update the operations and product manuals of the Bank. A total of 24 policies and product manuals were approved by the Board and implemented within the year.

# Financial Performance and Position

## INCOME



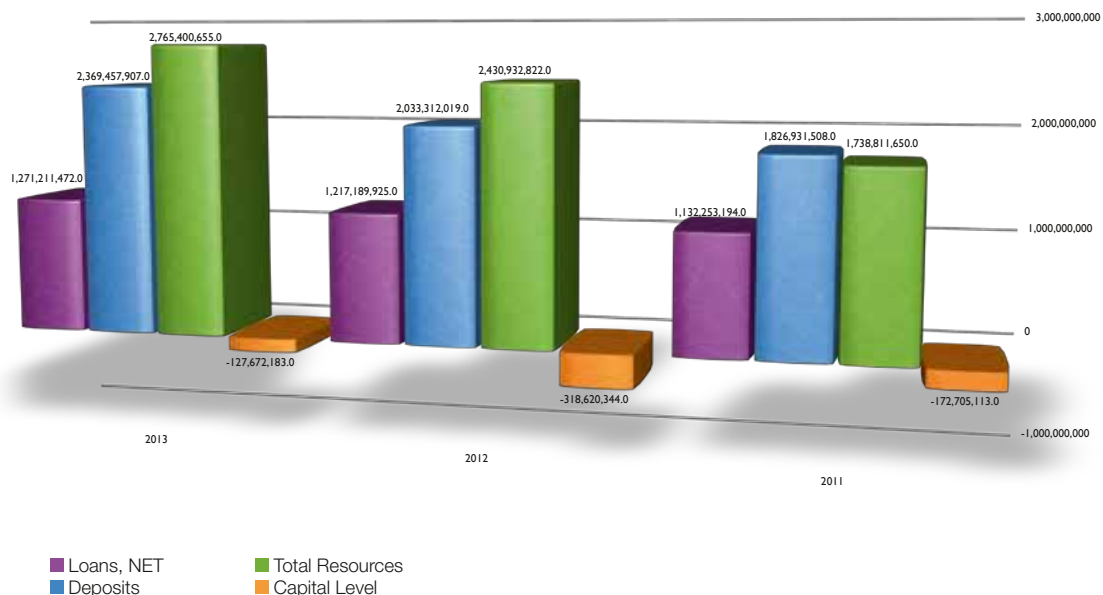
The Bank's financial performance for 2013 improved significantly as compared with that of 2012. Gross income increased by 14% or by P36 million while total expenses decreased by 32% or by P130 million.

Of the P36 million increase in the Gross Income, 37% interest earned from placement with the BSP and other local banks, 32% from gain on sale of investment properties, 16% due to the increase in interest income on loans and the rest from the service fees and other miscellaneous income. It can be noted though that while loan-related service fees increased by P9 million, deposit related service fees decreased by P3 million.

In the last quarter of 2013, the Bank started its conversion to the EIR method of recognizing income. Service fees are amortized throughout the term of the loan resulting in a decline in income for the last quarter of the year.

The decrease in operating expenses of P130 million immensely improved the profitability of the Bank. Out of the P130 million decrease, bulk came from drop on interest expense and reduction of credit and impairment losses. A savings of at least 48 MM resulted from lowering of interest rates on deposits; while other expenses grew such as taxes and licenses, documentary stamps among others.

## Resources

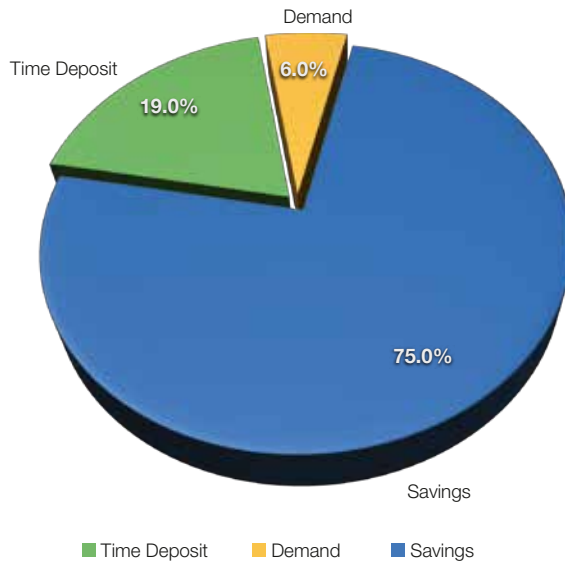
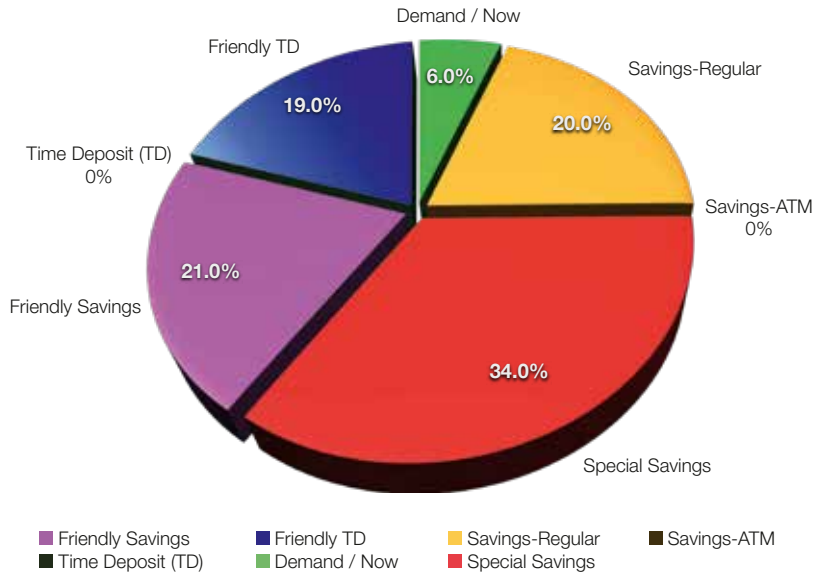


The Bank's total resources was up by 14% or P334 million. This was brought about by the increase in Due from BSP of 52% or P393 million and the 4% increase in the loan portfolio P54 million. In 2013, the Bank focused in marketing of Teacher's Salary Loan which as of year- end stood at P767 million representing 56% of the total loan portfolio. While consumption loans increased, commercial and real estate loans dropped. The increase in the Net Loan Portfolio was also affected by the write-off of loans amounting to P102 million during the year.

For the year 2013, the Bank's capital level increased because of the issuance of P174 million Common Shares bringing the Bank's capital stock to P400 million.

# Deposits

**Deposits Breakdown**



The Bank's deposit liabilities increased by 17% or by P336 million. Savings and NOW accounts decreased by 2% or by P39 million while Time deposit accounts increased by 459% or by P375 million. Although the Bank's high cost deposit level increased, interest expenses decreased as a result of the lowering of the interest rates.

## Capital Structure and Capital Adequacy

The primary objective of the Bank's capital management is to ensure that the Bank complies with externally imposed capital requirements, as mandated by the BSP, and the Bank maintain healthy capital ratios in order to support its business and maximize shareholder's value. Presented below are the risk-based capital components, including regulatory deductions:

Qualifying Capital in Php Million	Legazpi Savings Bank		
	2013	2012	2011
<b>Tier 1 Capital</b>			
Paid-up common stock	400.00	225.96	224.45
Paid-up perpetual and non-cumulative preferred stock	0.00	0.00	0.00
Additional paid-in-capital	0.00	0.00	0.00
Retained Earnings	(542.34)	(57.90)	(74.11)
Undivided profits	34.29	16.42	25.85
Cumulative Foreign Currency Translation	0.00	0.00	0.00
Minority Interest	0.00	0.00	0.00
Less: Unsecured DOSRI	0.08	0.00	6.10
*Unbooked valuation reserve			52.41
Deferred Income Tax	0.00	0.00	0.00
Goodwill	0.00	2.76	0.00
Total Tier 1 Capital	(108.12)	181.72	117.67
Less: Investment in Subsidiary - 50%	0.00		0.00
Net Tier 1 Capital	(108.12)	181.72	117.67
<b>Tier 2 Capital</b>			
Redeemable preferred stock	30.70	30.70	29.90
General Loan Loss Provision (GLLP)	11.42	8.50	2.71
**Deposit for common Stock subscription	445.96	620.00	20.00
Unrealized Gain AFS Equity Securities	0.00	0.00	0.00
Total Tier 2 Capital	488.08	659.20	52.61
Less: Investment in Subsidiary - 50%	0.00	0.00	0.00
Net Tier 2 Capital	488.08	659.20	52.61
Total Gross Qualifying Capital	(108.12)	363.45	170.28
Less: Total Investment in Subsidiary	0.00	0.00	0.00
<b>Total Qualifying Capital</b>	<b>(108.12)</b>	<b>363.45</b>	<b>170.28</b>

Note : Deductions to Tier 2 Capital is capped at the Total Amount of Gross Tier 2 Capital. Any excess shall be deducted from Tier 1 Capital.

\* 2011 CAR template includes Unbooked valuation reserve as deduction to tier 1 capital

\*\*2011/2012 CAR template includes DSS as part of tier 2 capital

The Bank manages its capital structure and makes adjustments in the light of changes in economic conditions and the risk characteristics of its activities. The Bank expects no dividend pay-out within 2013 and next 2 years as the Bank is still recovering from its previous years' losses. Significant changes on objectives, policies and processes were likewise implemented in order to be compliant with regulations and ensure viability of the business.

Qualifying Capital in Php Million	Legazpi Savings Bank		
	2013	2012	2011
Tier 1 Capital	(108.05)	184.48	117.67
Tier 2 Capital	0.00	181.72	52.61
Gross Qualifying Capital	(108.05)	366.20	52.61
Less : required deductions	0.08	2.76	0.00
Total Qualifying Capital	(108.12)	363.45	170.28
Risk Weighted Assets	1,995.90	2,246.46	1,707.73
Tier 1 Capital Ratio	-5.42%	8.09%	6.89%
Capital Adequacy Ratio	-5.42%	16.18%	9.97%

Note: \*After including the Deposit for future stock subscription as part of Tier 1 capital, the CAR, as calculated by the Bank, would have been 20.22%.

The total risk weighted assets for Credit, Market and Operational Risk are provided below:

Risk Weighted Assets in Php Million	Legazpi Savings Bank		
	2013	2012	2011
Credit Risk	1,706.63	2,020.06	1,653.91
Market Risk	0.86	0.00	0.00
Operational Risk	288.41	226.40	53.82
Total Capital Requirements	1,995.90	2,246.46	1,707.73

On the other hand, the capital requirements are as follows:

Capital Requirements in Php Million	Legazpi Savings Bank		
	2013	2012	2011
Credit Risk	170.66	202.01	165.39
Market Risk	0.09	-	-
Operational Risk	28.84	22.64	5.38
Total Capital Requirements	199.59	224.65	170.77

## Credit Risk

The Bank uses the Standardized Approach under Circular 538 in computing its exposure to credit risk. Credit Risk-Weighted Asset (CRWA) is an important risk measure of the Bank, primarily because it is used to determine the Bank's minimum capital requirement for credit which is defined as 10% of the total CRWA. The table below provides the details of the total CRWA of the Bank:

CREDIT RISK-WEIGHTED ASSETS (In Php Million)	Legazpi Savings Bank		
	2013	2012	2011
Credit Risk-Weighted Assets			
Total Risk Weighted On-Balance Sheet Assets	1,706.63	2,028.56	1,706.32
Total Risk-Weighted Off-Balance Sheet Assets	-		
Total Counterparty Risk-Weighted Assets in the Banking Book (Derivatives and Repo-style Transactions)	-		
Total Gross Risk-Weighted Assets	1,706.63	2,028.56	1,706.32
Deductions:		(8.50)	
General loan loss provision [in excess of the amount permitted to be included in Upper Tier 2]		(8.50)	
Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board			(52.41)
<b>TOTAL CREDIT RISK-WEIGHTED ASSETS</b>	<b>1,706.63</b>	<b>2,020.06</b>	<b>1,653.91</b>

The Bank has no credit equivalent amount for off-balance sheet items as well as counterparty exposures. Presented below is the total credit exposure, broken down by type of exposures and risk buckets:

2013 (Legazpi Savings Bank)

ON-BALANCE SHEET ASSETS (In Php Million)	Exposures, Net of Specific Provisions	Exposures		Risk Weights						Total Credit Risk Weighted Assets
		Covered by Credit Risk Mitigation	Total Credit Risk Exposure after Risk Mitigation	0 %	20 %	50 %	75 %	100 %	150 %	
Cash on Hand	35.31		35.31	35.31						35.31
Checks and Other Cash Items	-		-							-
Due from Bangko Sentral ng Pilipinas (BSP)	1,150.36		1,150.36							1,150.36
Due from Other Banks	120.64		120.64		120.64					120.38
Available-for-Sale (AFS) Financial Assets										
Held-to-Maturity (HTM) Financial Assets										
Unquoted Debt Securities Classified as Loans										
Loans and Receivables	1,144.21	11.00	1,133.21							
Interbank Term Loans Receivable										
Loans and Receivables - Others										
Non-defaulted exposures										
Corporates										
Microfinance/Small and Medium Enterprises	186.88		186.88			186.88				186.88
Loans to Individuals for Housing Purposes	5.44		5.44			5.44				5.44
Loans to Individuals	784.95		784.95					784.95		784.95
Defaulted exposures										
Housing Loans	11.86		11.86					11.86		11.86
Other than Housing Loans	155.08		155.08						155.08	155.08
Loans and Receivables Arising from										
Repurchase Agreements, Certificates of										
Assignment/Participation with Recourse,										
and Securities Lending and Borrowing										
Transactions										
Sales and Contract Receivable (SCR)	63.33		63.33					37.77	25.55	63.33
Real and Other Properties Acquired	206.89		206.89						206.89	206.89
Total Exposures Excluding Other Assets	2,720.73	11.00	2,709.73	1,185.67		5.44	186.88	944.22	361.97	2,684.18
Other Assets	76.58		76.58					76.58		76.58
Total Exposures Including Other Assets	2,797.31	11.00	2,786.31	1,185.67	-	5.44	186.88	1,020.80	361.97	2,760.76
<b>Total Risk-weighted On Balance Sheet</b>										
<b>Assets not covered by Credit Risk Mitigants</b>	-		-	-	-	2.72	140.16	1,020.80	542.95	1,706.63
Total Exposures Covered by Credit Risk Mitigation			11.00							
<b>Total Risk-weighted On Balance Sheet</b>										
<b>Assets covered by Credit Risk Mitigants</b>	-		-	-	-	-	-	-	-	-
<b>TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS</b>										
						2.72	140.16	1,020.80	542.95	1,706.63

2012 (Legazpi Savings Bank)

ON-BALANCE SHEET ASSETS (In Php Million)	Exposures, Net of Specific Provisions	Exposures		Risk Weights						Total Credit Risk Weighted Assets
		Covered by Credit Risk Mitigation	Total Credit Risk Exposure after Risk Mitigation	0 %	20 %	50 %	75 %	100 %	150 %	
Cash on Hand	55.42		55.42	55.42						55.42
Checks and Other Cash Items			-							
Due from Bangko Sentral ng Pilipinas (BSP)	756.44		756.44	756.44						756.44
Due from Other Banks	190.45		190.45			190.45				190.45
Available-for-Sale (AFS) Financial Assets			-							
Held-to-Maturity (HTM) Financial Assets	2.00		2.00			2.00				2.00
Unquoted Debt Securities Classified as Loans			-							
Loans and Receivables	1,352.16	12.99	1,339.17							
Interbank Term Loans Receivable			-							
Loans and Receivables - Others			-							
Non-defaulted exposures			-							
Corporates			-							
Microfinance/Small and Medium Enterprises	409.59		409.59			409.59				409.59
Loans to individuals for Housing Purposes	18.02		18.02			18.02				18.02
Loans to individuals	805.28	12.99	792.29			792.29				792.29
Defaulted exposures			-							
Housing Loans	3.02		3.02					3.02		3.02
Other than Housing Loans	116.25		116.25					116.25		116.25
Loans and Receivables Arising from			-							
Repurchase Agreements, Certificates of			-							
Assignment/Participation with Recourse,			-							
and Securities Lending and Borrowing			-							
Transactions			-							
Sales and Contract Receivable (SCR)	75.83		75.83					75.83		75.83
Real and Other Properties Acquired	228.36		228.36					228.36		228.36
Total Exposures Excluding Other Assets	2,660.66	12.99	2,647.67	811.86		18.02	409.59	1,063.59	344.60	2,647.66
Other Assets	131.86		131.86					131.86		131.86
Total Exposures including Other Assets	2,792.51	12.99	2,779.52	811.86	-	18.02	409.59	1,195.45	344.60	2,779.52
<b>Total Risk-weighted On Balance Sheet</b>										
<b>Assets not covered by Credit Risk Mitigants</b>	-		-			9.01	307.19	1,195.45	516.91	2,028.56
Total Exposures Covered by Credit Risk Mitigation			12.99							
<b>Total Risk-weighted On Balance Sheet</b>										
<b>Assets covered by Credit Risk Mitigants</b>	-		-			-	-	-	-	-
<b>TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS</b>										
						9.01	307.19	1,195.45	516.91	2,028.56

## Market Risk-Weighted Assets

Currently, LSB is only exposed to foreign currency risk only for market risk purposes; the risk that the value of instruments will fluctuate due to changes in foreign exchange rates. Foreign currency risk exposure of the Bank comes from remittances through the Bank's tie up with PetNet Western Union. The total amount of foreign currency exposure is at P0.86 million.

The Bank's previous CAR report did not include computations for Market risk, thus the nil balance in the risk weights for 2011-2012, for purposes of CAR computation.

Market Risk-Weighted Assets (in Php million)	Legazpi Savings Bank		
	2013	2012	2011
<b>Interest Rate Exposure</b>			
Specific Risk			
General Market Risk			
Php			
USD			
Total Capital Charge			
Adjusted Capital Charge			
<b>Total Risk-Weighted Interest Rate Exposures</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Risk-Weighted Equity Exposure</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Foreign Exchange Exposures</b>	<b>-</b>	<b>-</b>	<b>-</b>
Total Capital Charge	0.07		
Adjusted Capital Charge	0.09		
<b>Total Risk-Weighted Foreign Exchange Exposures</b>	<b>0.86</b>	<b>-</b>	<b>-</b>
<b>Total Risk Weighted Exposures on Options</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Market Risk-Weighted Assets</b>	<b>0.86</b>	<b>-</b>	<b>-</b>

## Risk Management

Effective risk management is fundamental to the success of the Bank, and is recognized as a core deliverable in the Bank's overall approach to strategy management. Responsibility for managing risks rests on every Legazpi Savings Bank employee. The Bank's Board and senior management are actively involved in planning, approving, reviewing, and assessing risks through various committees. The parameters they set govern all our risk-taking activities.

The Bank's Risk management function was also made operational during 2013. It initially defined the bank's risk appetite and established its risk reporting package purposely to inform management and the board on the level of risk it has undertaken and be able for them to respond to changes accordingly.

## Risk Management Structure

The Board of Directors takes the lead in all major initiatives. It approves broad risk management strategies and policies, and ensures that these are consistent with the Bank's overall objectives.

The Risk Management Committee (RMC) is comprised of five (5) members of the Board, including two (2) independent directors holding the Committee's Chairmanship and the Vice-Chairmanship position. They possess expertise and knowledge of the Bank's risk exposures, which enable them to develop appropriate strategies for preventing or minimizing the impact of losses.

Overall responsibility for the Bank's risk management process rests with the RMC. It formulates policies and strategies to identify, measure, manage and limit the Bank's risks. The RMC ensures that the system of limits approved by the Board remains effective. It also makes certain that limits are observed and that immediate corrective actions are taken whenever needed. The Risk Management Unit (RMU), together with the President, various committees and management, support the RMC in the fulfillment of its duties and responsibilities.

RMU is independent from executive functions and business center responsibilities, operations and revenue-generating functions. It reports directly to the Board through the RMC. The RMU supports the RMC in carrying out its responsibilities by:

- Analyzing, communicating, implementing and maintaining the risk management policies approved by the RMC and the Board;
- Spearheading the regular review of the Bank's risk management policies and elevating recommendations that enhance the risk management process to the RMC and the Board, for their approval; and
- Ensuring that the risks arising from the Bank's activities are identified, measured, analyzed, reported and understood by risk takers, management, and the Board. It analyzes limit exceptions and recommends enhancements to the limit structure.

Risk Management is responsible for:

- identifying the key risk exposures and assessing and measuring the extent of risk exposures of the bank and its trust operations;
- monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the Bank's internal capital adequacy assessment on an ongoing basis;
- monitoring and assessing decisions to accept particular risks whether these are consistent with Board-approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
- reporting on a regular basis to Senior Management and the Board the results of assessment and monitoring.

## Various Types of Risk

### *Credit Risk*

This is the risk where counterparty fails to meet its contractual obligation. LSB's lending business follows credit policy guidelines set by the Board, RMC, and RMU. These guidelines serve as the Bank's minimum standards for extending credit. Everyone engaged in the credit process are required to understand and adhere to these policies.

LSB's product manuals contain business plans and define the business parameters by which credit activity is to be performed. Before extending a loan, the Bank observes a system of checks and balances, including the approval of the Branch Credit Committee, Head Office Committee, or the Board. The RMC reviews the Bank's business strategies and ensures that revenue generating activities meet risk standards. LSB holds regular audit across the organization. Its Board – through the Loan

Committee, Corporate Governance, and RMC – ensures that all business segments follow sound credit policies and practices.

The Bank manages risk concentration by type of individual or group of borrowers, and by industry sector. It assesses the credit quality of financial assets using the Bangko Sentral ng Pilipinas' (BSP) credit classifications. The Bank uses credit scoring models and decision systems for SME loans, as approved by the Board.

### *Market Risk*

This covers the areas of interest rate, and liquidity risks. Interest rate risk arises from movements in interest rates. Liquidity risk is the inability to meet obligations when they fall due without incurring unacceptable losses.

The Bank's market risk policies and implementing guidelines are regularly reviewed by the Assets & Liabilities Committee (ALCO), RMC and the Board to ensure that these are up-to-date and in line with changes in the economy, environment and regulations.

The RMC and the Board set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in. The Bank utilizes various measurement and monitoring tools to ensure risk-taking activities are managed within instituted market risk parameters.

Based on the products engaged by the Bank, market risk evidently stems from fluctuations in foreign exchange rates and benchmark interest rates.

### *Interest Rate Risk in the Banking Book*

The interest rate sensitivity gap report measures interest rate risk by identifying gaps between repricing dates of assets and liabilities. The Bank's sensitivity gap model calculates the effect of possible rate movements on its interest rate profile. LSB uses the sensitivity gap model to estimate its Earnings-At-Risk (EAR) should interest rates move against our interest rate profile. Our EAR limits are based on a percentage of LSB's projected earnings and capital for the year. We also perform stress-testing analysis to measure the impact of various scenarios based on interest rate volatility and shift in the yield curve.

The ALCO is responsible for managing LSB's structural interest rate exposure. Its goal is to achieve a desired overall interest rate profile while remaining flexible to interest rate movements and changes in economic conditions. RMU and RMC review and oversee its interest rate risks.

### *Liquidity Risk*

In managing its liquidity position, the Bank ensures that it has more than adequate funds to meet its maturing obligations. LSB uses the Maximum Cumulative Outflow (MCO) Model to measure liquidity risk arising from the mismatches of its assets and liabilities.

The Bank administers stress testing to assess its funding needs and strategies under different conditions. Stress testing enables the Bank to gauge its capacity to withstand both temporary and long-term liquidity disruptions.

The Liquidity Contingency Funding Plan (LCFP) helps the Bank anticipate how to manage a liquidity crisis under various stress scenarios. Liquidity limits for normal and stress conditions cap the projected outflows on a cumulative and per tenor basis.

Historically, the Bank's liquidity has been in good condition considering the following factors:

1. Capital infusion of Php620 million by the parent company on December 20, 2012.
2. The Bank is backed up by Robinsons Bank Corp., its parent company, where funds will be made available in case of heightened liquidity requirements.
3. The Bank's Risk Management Unit is now in the process of improving the liquidity gap report as part of its efforts to continually strengthen its risk controls to manage liquidity risk.

LSB discourages dependence on Large Funds Providers (LFPs), except those funds coming from the parent bank, and monitors the deposit funding concentrations so that it will not be vulnerable to a substantial drop in deposit level should there be an outflow of large deposits. Additionally, the Bank plans to strengthen its liquidity by offering competitive deposit rates within its target market in the Bicol region.

ALCO is responsible for managing the liquidity of LSB while RMU and RMC review and oversee the Bank's overall liquidity risk management.

### *Operational Risk*

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. To mitigate these, LSB constantly strives to maintain effective internal control system and prudent use of technology which are key factors towards continuous self-improvement under a "no-surprise" operating environment.

LSB's Board-approved bankwide organizational chart clearly establishes areas of management responsibility, accountability and reporting lines for all its senior officers. Operational risk management policies and frameworks are continuously reviewed and updated, subject to RMC and Board approvals to ensure that they remain relevant and effective.

The Bank's products and operating manuals, policies and procedures spell out internal controls implemented by its business and operating support units. Its Internal Audit Division (IAD) provides independent reasonable assurance on control adequacy and compliance with these manuals. LSB continually identifies and assesses operational risks across the organization and develops controls to mitigate and manage them as part of continuing efforts to enhance its Operational Risk Management Framework.

To ensure that the Bank manages all operational risks adequately, specialized functions are engaged in risk management. These include its Information Technology, Information Security, Financial Control, Legal, Compliance, Human Resources and Security Command. Its IAD regularly reports to the Board's Audit Committee on the effectiveness of internal controls.

The Bank is yet to implement the Operational Risk Management Framework being adopted by the parent bank. This would establish the operational risk universe of LSB, the Key Risk Indicators and operational risk management tools (i.e. RCSA, KRI, LED) that would be used in the identification, measurement, monitoring and controlling of operational risks in LSB.

### *Information Technology Risk*

Information Technology risk is the risk to earnings or capital arising from deficiencies in systems design, implementation, maintenance of systems or equipment and the failure to establish adequate security measures, contingency plans, testing and auditing standards.

To provide simpler, faster, more convenient and secured banking services to its growing clientele and to avail of an advanced management information system that enables the Bank to make fast and well-informed business decisions, it continually invests in Information Technology by venturing into core business process automations, key system enhancements, and information security solutions.

Given this heavily automated operating environment, LSB makes sure that it continuously identifies and quantifies risks to the greatest extent possible and establishes controls to manage technology-associated risks through effective planning, proper implementation, periodic measurement and monitoring of performance.

### *Legal Risk*

Legal risk is the potential loss due to nonexistent, incomplete, incorrect, and unenforceable documentation that the Bank uses to protect and enforce its rights under contracts and obligations. A legal review process, which its Legal Department performs, is the primary control mechanism for this type of risk to ensure that the Bank's contracts and documentation adequately protects its interests and complies with applicable legal and regulatory requirements.

### *Compliance Risk*

Compliance Risk, covers the potential loss from non-compliance with laws, rules and regulations, policies and procedures, and ethical standards. LSB recognizes that compliance risk can diminish its reputation, reduce its franchise value, limit its business opportunities, and reduce its potential for expansion. Thus, LSB, guided by its Compliance Unit, continuously promotes a culture of compliance.

### *Strategic Risk*

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper resolution of conflicts, and slow response to industry changes. Strategic risk can influence the Bank's long-term goals, business strategies, and resources. Thus, the Bank utilizes both tangible and intangible resources to carry out its business strategies. These include communication channels, operating systems, delivery networks, and managerial capacities and capabilities.

### *Reputational Risk*

Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. This affects LSB's ability to establish new relationships or services, or manage existing relationships. The risk may expose the Bank to litigation, financial loss, or a decline in customer base. All employees are responsible for building LSB's reputation and exercising an abundance of caution when dealing with customers and communities.

## **Qualitative and Quantitative Information on Risk Exposures**

(Credit, Market, Liquidity, Operational, Legal and Other Risk)

### **Credit Risk**

Credit risk may be defined as the possibility of loss due to the failure of a customer/borrower or counterparty to perform its obligation to the Bank.

The Bank has several credit risk mitigation practices:

- The Bank offers a variety of loan products with substantial collateral values. The latter part of this credit risk section discusses collateral and other credit enhancements.
- Limits are set on the amount of credit risk that the Bank is willing to take for customers and counterparties, and exposures are monitored against such credit limits.
- The Bank also observes related regulatory limits such as the single borrower's limit (SBL) and directors, officers, stockholders and related interests (DOSRI) ceiling.
- The Bank assesses the probability of default by its borrowers using an internal loan classification system.
- Past due and non-performing loan (NPL) ratios are also used to measure and monitor the quality of the loan portfolio.

*Maximum exposure to credit risk*

As of December 31, 2013 and 2012, the maximum exposure to credit risk is equivalent to the carrying amount of the Bank's financial assets and commitments.

The table below shows the Bank's net credit risk exposure for some items in loans and receivables after considering the financial effect of collateral and other credit enhancements:

<b>As of December 31, 2013</b>				
	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral	Maximum Exposure to Credit Risk
<b>Loans and Receivables</b>				
<b>Receivables from customers</b>				
<b>Consumption</b>	816,604,034	124,709,361	124,709,361	691,894,673
<b>Commercial</b>	379,292,899	198,420,685	198,420,685	180,872,214
<b>Real Estate</b>	8,128,665	20,813,010	8,128,665	
<b>Other Receivables</b>				
<b>Sales Contract Receivable</b>	48,798,728	102,862,289	48,798,728	
<b>Total</b>	<b>1,252,824,326</b>	<b>446,805,345</b>	<b>380,057,439</b>	<b>872,766,887</b>

<b>As of December 31, 2012</b>				
	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral	Maximum Exposure to Credit Risk
<b>Loans and Receivables</b>				
<b>Receivables from customers</b>				
<b>Consumption</b>	508,244,954	84,577,412	84,577,412	423,667,542
<b>Commercial</b>	501,921,203	358,537,005	358,537,005	143,384,198
<b>Real Estate</b>	22,432,212	34,448,605	22,432,212	
<b>Other Receivables</b>				
<b>Sales Contract Receivable</b>	47,932,471	60,762,484	47,932,471	
	<b>1,080,530,840</b>	<b>538,325,506</b>	<b>513,479,100</b>	<b>567,051,740</b>

*Collateral and other credit enhancement*

The aggregate fair market value of collateral against the maximum exposure on the Bank's financial assets amounted to ₱446.81 million and ₱538.33 million as of December 31, 2013 and 2012, respectively.

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

The main types of collateral obtained are as follows:

- Mortgages over real estate and vehicle for consumption and real estate lending
- Chattels over real estate, inventory and receivable for commercial lending
- Government securities for interbank lending

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. In general, the proceeds are used to reduce or repay the outstanding claim, and are not occupied for business use.

#### *Concentration of credit*

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

The tables below show the distribution of maximum credit exposure to credit risk by industry sector of the Bank before taking into account collateral held and other credit enhancements:

	2013	2012		Total
	Loans & Receivables	Loans & Receivables	Investment Securities	
Financial intermediaries	1,271,346,706	933,801,235	2,314,013	936,115,248
Other community, social and personal activities	856,799,833	607,689,979	-	607,689,979
Agriculture, hunting and forestry	244,403,765	315,670,607	-	315,670,607
Wholesale and retail	244,361,597	379,212,716	-	379,212,716
Real estate, renting and business services	66,885,051	72,114,758	-	72,114,758
Others	40,820,297	76,458,109	-	76,458,109
	<b>2,724,617,249</b>	<b>2,384,947,404</b>	<b>2,314,013</b>	<b>2,387,261,417</b>
Less allowance for credit losses	182,945,656	230,688,499	-	230,688,499
	<b>2,541,671,593</b>	<b>2,154,258,905</b>	<b>2,314,013</b>	<b>2,156,572,918</b>

#### *Credit quality*

For receivables from customers, credit quality is being evaluated using the following classifications:

#### *Neither past due nor individually impaired*

The Bank classifies those accounts under current status having the following loan grades:

- High grade  
This pertains to accounts with a very low probability of default as demonstrated by the borrower's long history of stability, profitability and diversity. The borrower has the ability to raise substantial amounts of funds through the public markets. The borrower has a strong debt service record and a moderate use of leverage.
- Standard grade  
The borrower has no history of default. The borrower has sufficient liquidity to fully service its debt over the medium term. The borrower has adequate capital to readily absorb any potential losses from its operations and any reasonably foreseeable contingencies. The borrower reported profitable operations for at least the past three (3) years.

- Substandard grade  
The borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues.
- Unrated grade  
Other credit assets which cannot be classified as High, Standard or Sub-standard are tagged as Unrated.

*Past due but not individually impaired*

These are accounts which are classified as delinquent but the Bank assesses that there is no objective evidence that these accounts are impaired as of statement of financial position date.

*Individually impaired*

Accounts which show evidence of impairment as of statement of financial position date.

The following tables show credit quality per class of loans and receivables, gross of allowance for credit losses and unearned interest discount (in millions):

	2013						
	Neither past due nor impaired				Past due but not impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
<b>Receivables from customer:</b>							
Consumption	-	639	-	-	134	84	857
Commercial	-	72	-	-	64	353	489
Real Estate	-	3	-	-	-	13	16
<b>Other Receivables:</b>							
Sales contract receivable	-	32	-	-	14	4	50
Accounts receivable	-	13	-	-	-	5	18
Accrued interest receivable	-	-	-	-	-	18	18
Finance lease receivable	-	-	7	-	-	-	7
	-	759	7	-	212	477	1,455

	2012						
	Neither past due nor impaired				Past due but not impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
<b>Receivables from customer:</b>							
Consumption	93	104	165	167	17	68	614
Commercial	55	61	17	53	24	488	698
Real Estate	6	1	1	-	-	16	24
<b>Other Receivables:</b>							
Sales contract receivable	48	-	-	-	-	-	48
Accounts receivable	34	-	-	-	-	5	39
Accrued interest receivable	11	-	-	-	-	16	27
Finance lease receivable	-	-	7	-	-	-	7
	247	166	190	220	41	593	1,457

The credit quality of the Bank's financial assets at amortized cost and investment securities are all classified as high grade except for 'Refundable deposits' which is classified as unrated. The Bank does not have financial assets (excluding loans and receivables) and investment securities which are either past due but not impaired or individually impaired as of December 31, 2013 and 2012.

*Aging analysis of past due but not impaired loans and receivables per class*

The tables below show the aging analysis of past due but not impaired loans and receivables per class:

	2013					Total
	Less than 30 days	30 to 60 days	61 to 90 days	91 days to 1 year	Over 1 year	
Receivables from customer:						
Commercial	18,200,890	29,996,726	4,048,508	11,557,517	-	63,803,641
Consumption	13,036,473	103,953,290	9,759,068	6,853,686	-	133,602,517
Other Receivables:						
Sales contract receivable	192,491	2,370,347	-	11,608,629	-	14,171,467
	<b>31,429,854</b>	<b>136,320,363</b>	<b>13,807,576</b>	<b>30,019,832</b>	<b>-</b>	<b>211,577,625</b>

	2012					Total
	Less than 30 days	30 to 60 days	61 to 90 days	91 days to 1 year	Over 1 year	
Receivables from customer:						
Consumption	820,278	2,816,613	137,719	18,007,943	2,387,093	24,169,646
Commercial	1,519,727	1,219,672	117,074	12,498,247	1,847,610	17,202,330
Real Estate	-	-	-	329,474	-	329,474
	<b>2,340,005</b>	<b>4,036,285</b>	<b>254,793</b>	<b>30,835,664</b>	<b>4,234,703</b>	<b>41,701,450</b>

## Liquidity Risk

Liquidity risk may be defined as the possibility of loss due to the Bank's inability to meet its financial obligations when they become due. Liquidity risk is considered in the Bank's assets and liabilities management. The Bank seeks to lengthen liability maturities, diversify existing fund sources, and continuously develop new instruments that cater to different segments of the market.

The Bank also keeps credit lines with financial institutions, as well as a pool of liquid or highly marketable securities. Reserves management is another specialized function within the Bank, complying with BSP reserve requirements, which may be a buffer against unforeseen liquidity drains.

The liquidity or maturity gap report is another tool for measuring liquidity risk. Although available contractual maturity dates are generally used for putting instruments into time bands, expected liquidation periods, often based on historical data, are used if contractual maturity dates are unavailable. The liquidity gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive liquidity gap is an estimate of the Bank's net excess funds for the time band. A negative liquidity gap is an estimate of a future funding requirement of the Bank. Although such gaps are a normal part of the business, a significant negative amount may bring significant liquidity risk. To help control liquidity risk arising from negative liquidity gaps, maximum cumulative outflow (MCO) targets are set for time bands up to one (1) year.

*Analysis of financial instruments by remaining maturities*

The table below summarized the maturity profile of the Bank's financial instruments based on contractual undiscounted cash flows:

	December 31, 2013					Total
	On Demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 years	Over 5 years	
<b>Financial Assets</b>						
Cash and other cash items	34,049,901	-	-	-	-	34,049,901
Due from BSP*	137,999,530	1,012,740,722	-	-	-	1,150,740,252
Due from other banks	118,576,473	776,825	-	-	-	119,353,298
AFS investments	-	-	-	-	-	-
Loans and receivables*	548,993,035	178,173,439	325,070,908	949,275,159	47,048,744	2,048,561,285
Other assets	-	-	-	419,236	688,057	1,107,293
	<b>839,618,939</b>	<b>1,191,690,986</b>	<b>325,070,908</b>	<b>949,694,395</b>	<b>47,736,801</b>	<b>3,353,812,029</b>

<b>Financial Liabilities</b>						
Deposit liabilities*	1,913,471,529	9,898,658	35,701,296	489,412,960	-	2,448,484,443
Redeemable preferred shares	30,700,000	-	-	-	-	30,700,000
Deposit for future subscription	445,960,000	-	-	-	-	445,960,000
Accrued expenses and other liabilities						-
Accrued expenses	15,194,459	-	-	-	-	15,194,459
Accounts payable	9,090,984	-	-	-	-	9,090,984
Retirement liability	5,045,403	-	-	-	-	5,045,403
Rent payable	2,926,222	-	-	-	-	2,926,222
Accrued interest expense	274,488	-	-	-	-	274,488
Other liabilities	26,991	-	-	-	-	26,991
	<b>2,422,690,076</b>	<b>9,898,658</b>	<b>35,701,296</b>	<b>489,412,960</b>	<b>-</b>	<b>2,957,702,990</b>

	December 31, 2012					Total
	On Demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 years	Over 5 years	
<b>Financial Assets</b>						
Cash and other cash items	50,414,898	-	-	-	-	50,414,898
Due from BSP*	756,442,601	-	-	-	-	756,442,601
Due from other banks	177,358,634	-	-	-	-	177,358,634
AFS investments	-	2,314,013	-	-	-	2,314,013
Loans and receivables*	675,709,527	117,022,844	204,368,835	585,449,243	11,061,768	1,593,612,217
Other assets	-	-	-	-	2,635,594	2,635,594
	<b>1,659,925,660</b>	<b>119,336,857</b>	<b>204,368,835</b>	<b>585,449,243</b>	<b>13,697,362</b>	<b>2,582,777,957</b>

<b>Financial Liabilities</b>						
Deposit liabilities*	1,951,535,645	-	-	99,311,162	-	2,050,846,807
Redeemable preferred shares	30,700,000	-	-	-	-	30,700,000
Deposit for future subscription	-	-	620,000,000	-	-	620,000,000
Accrued expenses and other liabilities						-
Retirement liability	46,079,035	-	-	-	-	46,079,035
Accrued expenses	6,846,028	-	-	-	-	6,846,028
Accounts payable	6,775,924	-	-	-	-	6,775,924
Accrued interest expense	682,143	-	-	-	-	682,143
Other liabilities	62,481	-	-	-	-	62,481
	<b>2,042,681,256</b>	<b>-</b>	<b>620,000,000</b>	<b>99,311,162</b>	<b>-</b>	<b>2,761,992,418</b>

## Market Risk

Market risk may be defined as the possibility of loss due to adverse movements in market factors such as rates and prices. Market risk is present in both trading and non-trading activities. These are the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. The risk arises from market-making, dealing and position-taking in quoted debt securities and foreign exchange.

The Bank observes market risk limits, which are approved by the BOD and reviewed at least annually. Limits are set in such a way as to ensure that risks taken are based on the Bank's existing capital adequacy framework, and corresponding monitoring reports are prepared regularly by an independent risk management unit.

When limits are breached, approval is sought from successive levels of authority depending on the amount of the excess. Limit breaches are periodically presented to the BOD.

*Interest Rate Risk in the Banking Book*

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 Bank's ALCO surveys the interest rate environment, adjusts the interest rates for the Bank's loans and deposits, assesses investment opportunities and reviews the structure of assets and liabilities.

The Bank also uses the repricing gap report. The repricing gap report is a tool used by the Bank for measuring market risk arising from non-trading portfolios. Although available contractual repricing dates are generally used for putting instruments into time bands, contractual maturity dates (e.g., for fixed rate instruments) or expected liquidation periods often based on historical data are used alternatively. The repricing gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive repricing gap implies that the Bank's net interest income could decline if interest rates decrease upon repricing. A negative repricing gap implies that the Bank's net interest income could decline if interest rates increase upon repricing. Although such gaps are a normal part of the business, a significant change may bring significant interest rate risk. To help control interest rate risk arising from repricing gaps, maximum repricing gap targets are set for time bands up to one (1) year.

Sensitivity analysis for several market factors showing how profit or loss and equity could be affected by changes in the relevant risk factor are in the following tables below. In general, sensitivity is estimated by comparing an initial value to the value derived after a specified change in the market factor, assuming all other variables are constant. The sensitivity of profit or loss may be the estimated effect of the assumed change in interest rates on net interest income, based on assets and liabilities held, or the estimated effect of the assumed change in foreign exchange rates on income, based on foreign currency assets and liabilities. On the other hand, AFS investments are revalued using the assumed change in interest rates to estimate the sensitivity of equity.

A negative amount in a table reflects a potential reduction in profit or loss and equity, while a positive amount reflects a potential increase.

As of December 31, 2013, the Bank has no instruments subject to repricing.

The tables below demonstrate the sensitivity of net interest income to reasonably possible changes in interest rates as of December 31, 2012:

	Change in basis points	Net interest income estimated effect in million pesos	Change in basis points	Net interest income estimated effect in million pesos	Change in basis points	Net interest income estimated effect in million pesos
PHP	+50	(377,604)	+100	(755,207)	+150	(1,132,811)
	-50	377,604	-100	755,207	-150	1,132,811

### Foreign Currency Risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The bank's policy is to maintain foreign currency exposure within acceptable limits.

### Operational Risk

Operational Risk is defined by the Bank as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events. The bank has defined its operational risk management appetite as "Not to exceed 15% of the three (3) year average gross income of the Bank."

LSB uses its Loss Events Database (LED) and the pre-defined Basel risk categories in its risk identification process for operational risk. Based on the Bank's historical crimes and losses report for 2012-2013, LSB's total operational losses (net of recoveries) amounted to P17.024 million. The summary of operational losses per risk category is summarized in the table below:

<b>Risk Category</b>	<b>Loss Amount</b>
Internal Fraud	P17,013,319.66
External Fraud	-
Employment Practices & Workplace Safety	-
Clients, Products & Business Practices	-
Damage to Physical Assets	P11,027.26
Business Disruption & System Failure	-
Execution, Delivery & Process Management	-
Information Security & Technology Risk	-
<b>Total</b>	<b>P17,024,346.92</b>

LSB started using the Operational Risk Reporting Package to monitor and report operational risk events by using the identified Key Risk Indicators that are applicable to the Bank.

Currently the Bank uses the following KRI's to monitor and report operational risk events:

<b>Unit</b>	<b>Risk Indicator</b>
Clearing	Delayed Outward Checks
	Delayed Inward Checks Processing
	Delayed Checks Delivery Pick-Up
RBG	Offline ATM Incidents
	Teller shortages
HRD	Vacant Critical Positions
	Employee Turn-Over Rate
Admin and Security	Fraud Incidents
	ATM Skimming Incidents
	Damage to Bank Assets
	Robbery Incidents
Controllership	Booked Losses
	Delayed Regulatory Reports
Compliance	ALM Reports

The Bank is yet to implement the Operational Risk Management Framework being adopted by the parent bank. This would establish the operational risk universe of LSB, the Key Risk Indicators and operational risk management tools (i.e. RCSA, KRI, LED) that would be used in the identification, measurement, monitoring and controlling of operational risks in LSB.

## Business Risk

Business Risk as defined by BSP in Circular 747 refers to conditions which may be detrimental to a bank's business model and its ability to generate returns from operations, which in turn erodes its franchise value. Combining business risk with financial risks arising from the use of borrowed funds generates total corporate risk of the bank. Business risks shall include, but not limited to, the following:

1. Risks to reputation that arise from internal decisions that may damage a bank's market standing;
2. Risks to reputation that arise from internal decisions and practices that ultimately impinge on the public's trust of a bank;
3. Risks from the actions of a bank that are contrary to existing regulations and identified best practices and reflect weaknesses in the implementation of codes of conduct and standards of good practice; and
4. Legal risks to the extent that changes in the interpretation or provisions of regulations directly affect a bank's business model. Legal risk also covers the Bank's current and potential losses from lawsuits.

The assessment of Business Risk is covered in the Bank's Compliance Program, approved by the Board of Directors. The Program is in the process of enhancement and shall contain the following features:

1. The relevant Philippine laws and regulations to which Legazpi Savings Bank, Inc. is subject to;
2. The corresponding risks of non-compliance or the applicable sanctions and penalties;
3. The controls in place;
4. The likelihood or probability of non-compliance after considering the controls in place;
5. The prioritization or degree of risks of non-compliance (low, medium, high), based on the assessment result of item 4;
6. Testing frequency based on prioritization;
7. Testing procedures conducted/to be conducted;
8. Compliance testing results; and
9. The units responsible for enforcing compliance with the said rules and regulations.

To improve the effectiveness of the Compliance Program, it is summarized in the Compliance Risk Assessment Document, which contains the Bank specific high risk areas identified by the Compliance Unit, given the nature of its operation and business.

In assessing for the Bank's loss exposure under Business Risk, capital charge was used as a metric to cover for the potential losses that may arise from the three specific risks included in the computation of Business Risk: Compliance, Reputational, and Legal. Shown in the table below is the Bank's Loss Exposure to Business Risk. Following it is the rationale behind the numbers.

Type of Risk	Capital Charge as of December 2013 in (Php millions)
Compliance Risk	2.77
Reputational Risk	1.30
Legal Risk	–
Total Business Risk	4.07

## Compliance Risk

The Bank specified the loss amounts corresponding to the risk events using historical data, the sanctions/penalties to be imposed by the regulator in case of non-compliance, and considering the likelihood of occurrence, mitigating measures in place and management actions to address and control the risk.

## Reputational Risk

Reputational risk is defined as the current and prospective impact on earnings or capital arising from negative public opinion. It affects a financial institution's ability to establish new relationships or services or continue servicing existing relationships. This exposure may also expose a financial institution to litigation, financial loss, or a decline in its customer base. (*BSP Circular No. 510*)

Since Legazpi Savings Bank, similar to its parent bank is also in the business of banking, the operations is likewise anchored on depositing public trust and confidence. Any event or series of events that tend to tarnish the Bank's reputation can affect such confidence and create an impact on the business of the bank, its parent bank and the conglomerate where it belongs. It is therefore of extreme importance that the Bank maintains its health and create in the mind of the public a stature of strength, profitability, trustworthiness.

The Bank based the loss exposure for Reputational Risk on the following variables:

1. Impact and likelihood assessment and quantification - Assessment of the maximum loss amount and likelihood of each reputational risk event by analyzing the root causes of such events
2. Control assessment and quantification -Assessment of the effectiveness of controls established by the Bank to manage the risk
3. "Reputational Crisis" Stress testing - Assessment of the gross loss of the reputation events on its business and effectiveness of controls under different stress scenarios

The computed loss exposure for Reputational Risk is then multiplied by 20% , the growth rate factor assumed by the Bank to be used as the yearly increase in Reputational Risk capital charge.

## Legal Risk

Legal risk is defined as the extent that changes in the interpretation or provisions of regulations directly affect a Bank's business model. It also encompasses current and potential losses from lawsuits. The Bank's Legal Department makes use of the Status Report on Cases filed against/by the Bank in order to arrive at an appropriate measure of risk exposure. The database primarily monitors the standing of all cases the Bank handles. The main feature of this report is that it shows the estimated legal expenses incurred from having been involved in the case filed, the amount claimed by either parties or the probable provision for recovery or losses. The report is presented to the Management Committee on a weekly basis and to the Board of Directors on quarterly basis for oversight.

The Bank based the loss exposure for Legal Risk on the combined potential losses from cases filed by the Bank and cases involving Bank employees. Similar to the computation of capital charge for Reputational Risk, the Bank assumed a yearly growth rate of 20%. Based on the Bank's assessment, there is no calculated legal risk weighted asset and corresponding capital charge since the total potential recoveries are much more than the total potential losses in the next three (3) years.

## Strategic Risk

The impact of strategic risk that could adversely affect the Bank's earnings, under the normal Course of business, is identified by the Bank through a scenario planning exercise. These scenarios are linked to the changes in net income through variance analysis between the budgeted and "actual" income statements. The Bank started by considering the strategic initiatives which are to have (1) aggressive business growth and (2) automation/infrastructure. The Bank chose "aggressive business growth" as the initiative that is more likely to affect the Bank's CAR. Further, the Bank reviewed its plan to have aggressive business growth. The following are the initiatives to achieve business growth:

- a) Generate TSL bookings (ATM collect + Cash Card)
- b) Apply for DepEd APDS accreditation (code)
- c) Work-out with BSP for the lifting of the PCA
- d) Install additional ATMs in existing branches
- e) Revive SME-Lending
- f) Offer Microfinance loans
- g) Grow Jewelry loan portfolio
- h) Move Clearing operations to RBC

Among the foregoing initiatives, failure to meet the target bookings for the TSL portfolio would drastically affect its CAR under the normal course of business. Under this scenario, the Bank assumed that it will not meet 25% of its loan bookings for the year 2014-2016.

Based on the results of the scenario planning, it appears that ROE could drop to -2.80%, -2.10% and -1.69% in 2014, 2015 and 2016 respectively. In terms of CAR under Pillar II, the Bank's CAR will drop to 14.35%, 13.60% and 12.95% by 2014, 2015 and 2016 respectively. See results below:

Strategic Stress Testing (in Php millions, except %)	2014				2015				2016			
	ROE	Net Income	Pillar 2 CAR	Pillar 1 CAR	ROE	Net Income	Pillar 2 CAR	Pillar 1 CAR	ROE	Net Income	Pillar 2 CAR	Pillar 1 CAR
Actual/Projected	1.26%	4.55	14.24%	16.29%	4.44%	16.76	14.30%	16.34%	7.09%	28.80	14.60%	16.83%
Stressed	-2.80%	-9.70	13.91%	15.95%	-2.10%	-7.11	13.17%	15.10%	-1.69%	-5.63	12.35%	14.30%
Variance Amount	-4.07%	(14.25)	-0.33%	-0.34	-6.54%	(23.87)	-1.13%	-1.24%	-8.78%	(34.42)	-2.25	-2.53%
Variance%		-313%				-142%				-120%		

Based on the abovementioned scenario and applying stress testing on the derived net income and assuming there will be no dividend payments and all other things are held constant, the total capital and projected CAR from 2014-2016, taking into effect the strategic risk charge is as follow:

### Projected Capital

CAR SIMULATIONS - Pillar I & Pillar II	For STRATEGIC RISK Capital Charge Booking Target not met		
	2014	2015	2016
Nature of item			
Calculation of Qualifying Capital			
Adjusted Tier 1	343.6	336.5	328.4
Adjusted Tier 1 (as planned)	357.9	374.5	403.4
Stress Effect to Capital	(14.2)	(38.1)	(75.0)
Adjusted Tier 2	11.4	13.0	14.6
Total Qualifying Capital (Tier 1 + Tier 2)	355.0	349.5	343.0

### Projected CAR

Nature of Item	2014	2015	2016
<b>Calculation of Risk Weighted Assets (RWAs)</b>			
Total Credit RWAs	1,904.8	1,960.7	2,007.7
Total Market RWAs	-	-	-
Total Operational RWAs	362.2	410.9	476.0
Total Credit Concentration RWAs	154.1	158.1	161.3
Total IRBB RWAs	27.9	30.0	30.3
Total Liquidity RWAs	95.6	93.5	113.6
Total Business RWAs	48.6	58.1	73.7
Total Strategic RWA	<b>60.9</b>	<b>232.3</b>	<b>522.4</b>
<b>Total RWA (including Strategic RWA)</b>	<b>2,654.1</b>	<b>2,943.6</b>	<b>3,384.9</b>
<b>CAR - PILLAR II</b>	13.91%	13.71%	12.35%

The Bank recognizes that it should still improve and strengthen strategic risk management framework and process. Additional support processes would also be considered including planning and management of capital and funding needs, the necessary management information system, human resource management and development, and audit and independent review.

## Corporate Governance

### Board of Directors

Upon effective control of the new management, complete change of the Bank's corporate governance was the initial step on Legazpi Savings Bank's transformation. The new Board of Directors and Management team was elected and/or appointed to turnaround the bank into a profitable and compliant organization.

The new Board of Directors is composed of experienced bankers and professionals from their respective field of expertise. The new board members are committed to be independent and transparent to the banking public.

Board Level committees were likewise formed to effectively monitor the bank's corporate governance implementation. Heads of governance, control and risk were likewise replaced to install updated corporate governance strategies and initiatives.

### Bank Management Team

The Bank is lead by a capable management team of seasoned bankers who possess solid years of experience and training in their respective field of expertise. On top of the management structure is the President and under him are Officers composing the Management Committee (MANCOM) who handles the daily operations of bank. They discuss, devise and evaluate bankwide initiative and strategies to steer the wheel of the Bank.

### Compliance System

LSB adheres to the parent bank's multi-tiered system as the latter aims to provide a groupwide compliance implementation. Multi-tiered system consists of self-regulation by units and branches, the (internal and external) audit function and compliance unit, and the Audit Committee.

During 2013, compliance function was enhanced by establishing its own charter, compliance program and anti-money laundering policies and procedures. It has also conducted AML training to all LSB personnel to inform them of their role and responsibilities in combating money laundering. It is also an independent body functionally reporting to the Corporate Governance Committee and administratively to the President. The compliance office also serves as the liaison of the bank with the regulators and promotes compliance to internal and external policies and regulations.

The Internal Audit Division is directly reporting to the Board of Directors thru the Chairman but is administratively responsible to the President. It plays a vital role in the governance and operation of the Bank to achieve its key goals and objectives. As part of its consulting services and where circumstances dictate, the Internal Audit activity proposes new systems to revise, replace or strengthen

existing processes and systems which are evaluated to be ineffective or inoperative. Similarly, to add value and improve the Bank's operations, the Internal Audit activity assists management in identifying business risks, processes and system inefficiencies take appropriate corrective actions and ultimately support continuous improvement. To maintain the quality of internal audit services that it provides, the Internal Audit Division has instituted a feedback mechanism wherein the audit team is being evaluated by the auditee units after every engagement to assess the audit quality and effectiveness and make the necessary adjustments where needed.

## Incentive Structure and Remuneration Policies

Legazpi Savings Bank management ensures that its new employees' benefits package remains at par with the industry. It also encourages sustained performance and retains high potential personnel. The remuneration policies likewise hope to attract talents who will serve as the driving force in achieving the Bank's corporate vision.

The same benefits package is specifically patterned after RBC unless otherwise approved by the BSP specifically for LSB to promote congruence to the conglomerate where the bank belongs. The policy is pay for performance, highlighted by a competitive pay scale, profit sharing (if the Bank makes good) and annual merit-based increases hinged on performance and attainment of the Bank's key result indicators.

The Bank provides for SLs/VLs, life and medical insurance, uniform and all government-mandated entitlements. On the financial assistance side, the Bank provides loans to its employees at reasonable rates such as salary, housing and car loans under terms duly approved by the Bank's Board of Directors, the BSP and compliant with the BSP Manual of Regulations.

### Remuneration Policy

Annual compensation consists of guaranteed 14.5 months pay. The Bank complies with government mandated premium contributions for SSS, Pag-ibig and Philhealth. Vacation leave of 15 days and Sick Leave of 8 days are credited to each regular employee per year with an accumulation feature and eventual cash conversion after exceeding 30 days.

All regular employees are covered under the Group Life Insurance with coverage amount based on the employee's monthly salary. The plan has a double indemnity provision in case of accidental death.

Medical insurance or healthcare benefit coverage of each regular employee range from a maximum benefit limit of P90,000 to P160,000.00 per illness per year.

Employees are afforded with several financial assistance programs. The Employee Personal Loan Program, available for emergency and other personal use, with loanable amount ranging from Php20,000.00 to P75,000.00 depending on the rank/level of the employee and a maximum term of 2 years. Housing Loan Program has a maximum amount of P500,000.00, with a maximum term of 15 years and tenure requirement of at least five (5) years. The Bank provides a car plan which is a privilege granted to regular and full time officers of the Bank, with the rank of Manager and up, to provide mobility in the conduct of their official function. Car Plan ceiling for Junior Officers is up to Php550,000 while for Assistant Vice president to Vice President is up to Php 600,000.00. It provides for a 50%-50% sharing of plan limit and employee share may be loaned with the bank for a 10% interest per annum.

Employees with at least 10 years of service qualify for the retirement pay under the Bank's Retirement Plan. Mandatory retirement age is 60 years old, hence, those who have reached the age of 60 years are compulsory retired effective the day after their 60th birthday.

### Key Management Personnel

Key Management personnel are those persons having authority and responsibility for planning, directing, organizing and controlling the activities of the Group. The Bank considers the **members of the Management Committee** to constitute key management personnel. The remuneration package for Key Management Personnel are measured during a one-year performance period at various levels - group, business unit and individual level - by means financial and non-financial performance indicators. Total remuneration of key management personnel are as follows:

	<u>Subsidiary</u>
<b>2013</b>	15,923,161
<b>2012</b>	14,060,999
<b>2011</b>	12,244,454

### Remuneration of Board of Directors

During 2013, only the two (2) independent Board of Directors receive P12,000 per diem for attendance in each board meeting and a P3,000.00 per diem for each board-level committee meetings. Total director's fees:

	<u>Subsidiary</u>
<b>2013</b>	266,667
<b>2012</b>	567,081
<b>2011</b>	756,001

# 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 or if they are subjected to common control or common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities.

The Parent Company's governance policy on related party transaction is explained in the succeeding paragraphs.

1. Related party transactions shall mean any transactions between and among the Bank and its associates, affiliates, major stockholders, officers and directors, including their spouses, or relatives within the first degree of consanguinity or affinity, or by legal adoption, and of interlocking director relationships by members of the Board.
2. In the ordinary course of business, the Bank may have loans, deposits and other transactions with its certain directors, officers, stockholders and related interests (DOSRI).
3. The following provisions of the Corporation Code shall also apply:

A contract of the corporation with one or more of its directors or trustees or officers is voidable, at the option of such corporation, unless all the following conditions are present:

- a. That the presence of such director or trustee in the board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting. That the presence of such director or trustee in the board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting;
- b. That the vote of such director or trustee was not necessary for the approval of the contract.
- c. That the contract is fair and reasonable under the circumstances; and
- d. That in case of an officer, the contract has been previously authorized by the Board of Directors.

Where any of the first conditions set forth in the preceding paragraph is absent, in the case of a contract with a director or trustee, such contract may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock or of at least two-thirds (2/3) of the members in a meeting called for the purposes. Provided, that full disclosure of the adverse interest of the directors or trustees involved is made at such meeting; Provided, however, that the contract is fair and reasonable under the circumstances.

In 2013, the Parent Company had 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 of comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

The significant transactions and outstanding balances of the Parent Company with its related party follow:

		<b>Parent Company</b>		
		<b>2013</b>		
<b>Related Party</b>	<b>Nature of Transaction</b>	<b>Amount/ Volume</b>	<b>Outstanding Balance</b>	<b>Terms and Conditions/Nature</b>
Subsidiary	Advances from a subsidiary	<b>₱13,758,895</b>	<b>₱7,301,429</b>	Transportation expenses and down payment for software cost
Affiliate	Receivable from customers - commercial loans	<b>170,000,000</b>	<b>140,000,000</b>	Secured loans with annual interest ranging from 3.50% to 6.375%
Affiliates	Receivable from customers - bills purchased	<b>715,095,969</b>	<b>715,095,969</b>	Non-interest bearing domestic bills purchased
Affiliates	Deposit liabilities	<b>15,368,559,764</b>	<b>15,368,559,764</b>	Various terms and with annual interest rates ranging from nil to 5.75%
Affiliates	Interest income	<b>9,675,104</b>	<b>9,675,104</b>	Interest income from secured commercial loans
Affiliates	Interest expense	<b>9,147,533</b>	<b>9,147,533</b>	Interest expense on deposit liabilities
Affiliates	Rent expense	<b>39,826,425</b>	<b>39,826,425</b>	Office rental for branches with Robinsons Land Corporation

		<b>Subsidiary</b>		
		<b>2013</b>		
<b>Related Party</b>	<b>Nature of Transaction</b>	<b>Amount/ Volume</b>	<b>Outstanding Balance</b>	<b>Terms and Conditions/Nature</b>
Parent	Accounts receivable	<b>₱1,030,987</b>	<b>₱7,301,429</b>	Transportation expenses and down payment for software cost
Key Employees	Receivable from customers	<b>2,394,223</b>	<b>2,394,223</b>	Loans of directors, officers and stockholders
Key Employees	Deposit liabilities	<b>70,318</b>	<b>70,318</b>	Deposits of directors, officers and stockholders

Related Party	Nature of Transaction	Parent Company and Subsidiary		
		Amount/Volume	Outstanding Balance	Terms and Conditions/Nature
Subsidiary	Advances to a subsidiary	₱6,457,466	₱6,457,466	Transportation expenses and down payment for software cost
Affiliates	Receivable from customers - commercial loans	4,725,000,000	1,755,000,000	Secured loans with annual interest ranging from 5.00% to 6.81%
Affiliates	Receivable from customers - bills purchased	491,360,688	491,360,688	Non-interest bearing domestic bills purchased
Affiliates	Deposit liabilities	12,478,352,182	12,478,352,182	Various terms and with annual interest rates ranging from nil to 5.75%
Affiliates	Interest income	24,634,679	24,634,679	Interest income from secured commercial loans
Affiliates	Interest expense	10,566,591	10,566,591	Interest expense on deposit liabilities
Affiliates	Rent expense	32,428,970	32,428,970	Office rental for branches with Robinsons Land Corporation

In the ordinary course of business, the Parent Company has loan transactions with affiliates and with certain 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 the Bank's total regulatory capital or 15.00% of total loan portfolio, whichever is lower.

	Parent Company		LSB	
	2013	2012	2013	2012
Total outstanding DOSRI accounts	<b>855,095,969</b>	2,246,360,688	<b>2,387,476.82</b>	16,265,059
Percent of DOSRI accounts to total loans	<b>4.93</b>	13.37	<b>0.17</b>	1.15

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

The retirement fund of the Parent Company's employees amounted to P52.75 million and P12.71 million as of December 31, 2013 and 2012, respectively (see Note 20). The fund is being managed by JG Summit Multi-Employer Retirement Plan (MERP), a corporation created for the purpose of managing the funds of the Group, with Robinsons Bank Corporation (RBC) -Trust and Investment Group as the trustee.

Details of the transactions of the Parent Company with its retirement plan follow:

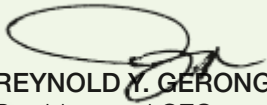
		2013		
Related Party	Nature of Transaction	Amount/ Volume	Outstanding Balance	Terms and Conditions/ Nature
Retirement plan	Contribution and interest earned	P38,005,112	P51,754,499	Contributions to the Fund plus interest earned during the year
		2012		
Related Party	Nature of Transaction	Amount/ Volume	Outstanding Balance	Terms and Conditions/ Nature
Retirement plan	Contribution and interest earned	P12,709,843	P12,709,843	Contributions to the Fund plus interest earned during the year

The retirement plan under the MERP has an Executive Retirement Committee, that is mandated to approve the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the plan. Certain members of the BOD of the Parent Company are represented in the Executive Retirement Committee. RBC manages the plan based on the mandate as defined in the trust agreement.

# Statement of Management Responsibility

The management of Robinsons Bank Corporation is responsible for all information and representations contained in the financial statements for the year ended December 31, 2013. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.



**REYNOLD Y. GERONGAY**  
President and CEO

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Bank. Sycip, Gorres, Velayo & Co., the independent auditors appointed by the Board of Directors and Stockholders, have examined the financial statements of the Bank in accordance with generally accepted auditing standards and have expressed their opinion on the fairness of presentation upon completion of such examination, in their report to the Board of Directors and Stockholders.



**ANGELITO V. EVANGELISTA**  
Executive Vice President / Operations



**IRMA M. VELASCO**  
Vice President / Controller



SyCip Gorres Velayo & Co.  
6760 Ayala Avenue  
1226 Makati City  
Philippines

Tel: (632) 891 0307  
Fax: (632) 819 0872  
ey.com/ph

BOA/PRC Reg. No. 0001,  
December 28, 2012, valid until December 31, 2015  
SEC Accreditation No. 0012-FR-3 (Group A),  
November 15, 2012, valid until November 16, 2015

## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
Robinsons Bank Corporation

### Report on the Financial Statements

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

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of 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 Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 30 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 Robinsons Bank Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Aris C. Malantic

Partner

CPA Certificate No. 90190

SEC Accreditation No. 0326-AR-2 (Group A),  
March 15, 2012, valid until March 14, 2015

Tax Identification No. 152-884-691

BIR Accreditation No. 08-001998-54-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 4225187, January 2, 2014, Makati City

March 31, 2014

**ROBINSONS BANK CORPORATION AND SUBSIDIARY**  
**STATEMENTS OF FINANCIAL POSITION**

	Consolidated		Parent Company		January 1, 2012 (As Restated - Note 2)
	December 31		December 31		
	2013	2012 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)	
<b>ASSETS</b>					
Cash and Other Cash Items (Note 15)	₱1,143,258,839	₱1,038,282,061	₱1,109,208,879	₱987,867,163	₱701,098,433
Due from Bangko Sentral ng Pilipinas (Note 15)	11,437,995,107	8,106,584,476	10,287,995,577	7,350,141,875	5,547,421,010
Due from Other Banks (Note 28)	2,135,050,452	2,169,927,996	2,015,697,154	1,992,569,303	1,897,621,161
Interbank Loans Receivable (Notes 6 and 28)	3,099,000,000	100,000,000	3,099,000,000	100,000,000	2,800,000,000
Derivative Assets (Note 7)	–	109,088,614	–	109,088,614	79,280,867
Financial Assets at Fair Value Through Profit or Loss (Note 7)	1,094,982,315	2,185,673,337	1,094,982,315	2,185,673,337	–
Available-for-Sale Investments (Notes 7 and 25)	5,834,159,192	7,299,167,989	5,863,159,192	7,296,853,976	6,452,309,198
Held-to-Maturity Investment (Note 7)	75,000,000	–	75,000,000	–	–
Loans and Receivables (Note 8)	18,810,281,293	18,279,244,219	17,767,707,037	17,313,552,194	13,178,704,803
Investment in a Subsidiary (Note 9)	–	–	731,000,000	731,000,000	–
Property and Equipment (Note 10)	472,102,324	419,856,455	433,953,133	375,945,804	334,748,373
Investment Properties (Note 11)	239,616,938	236,068,078	98,695,983	64,033,816	55,401,286
Branch Licenses (Note 12)	949,650,182	944,250,182	329,650,182	324,250,182	321,850,182
Goodwill (Note 9)	244,327,006	244,327,006	–	–	–
Deferred Tax Asset - Net (Note 23)	–	–	99,543,511	81,852,671	77,286,519
Other Assets (Note 13)	341,271,020	143,848,469	329,847,460	139,395,249	82,214,187
	<b>₱45,876,694,668</b>	<b>₱41,276,318,882</b>	<b>₱43,335,440,423</b>	<b>₱39,052,224,184</b>	<b>₱31,527,936,019</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Deposit Liabilities (Notes 15 and 24)					
Demand	₱8,426,641,325	₱6,819,383,055	₱8,280,498,997	₱6,671,547,244	₱4,716,831,579
Savings	23,019,440,597	20,738,158,148	21,253,515,436	18,934,458,314	15,290,018,910
Time	7,327,070,074	6,403,683,926	6,869,679,656	6,321,907,552	5,180,864,242
	<b>38,773,151,996</b>	<b>33,961,225,129</b>	<b>36,403,694,089</b>	<b>31,927,913,110</b>	<b>25,187,714,731</b>
Manager's Checks	237,145,631	170,814,553	237,145,631	170,814,553	141,407,791
Income Tax Payable	6,346,776	202,617	3,226,328	202,617	12,230,098
Redeemable Preferred Shares (Notes 9 and 16)	1,700,000	30,700,000	–	–	–
Deferred Tax Liability - Net (Note 23)	68,966,845	104,147,329	–	–	–
Accrued Expenses and Other Liabilities (Note 17)	1,502,250,221	1,336,622,350	1,464,971,680	1,280,687,000	843,307,213
	<b>40,589,561,469</b>	<b>35,603,711,978</b>	<b>38,109,037,728</b>	<b>33,379,617,280</b>	<b>26,184,659,833</b>

(Forward)

	Consolidated		Parent Company		January 1,
	December 31		December 31		2012
		2012 (As Restated - Note 2)		2012 (As Restated - Note 2)	(As Restated - Note 2)
	2013		2013		
<b>Equity</b>					
Common stock (Note 19)	<b>₱436,835,000</b>	₱436,835,000	<b>₱436,835,000</b>	₱436,835,000	₱436,835,000
Preferred stock (Note 19)	<b>5,202,462,740</b>	5,202,462,740	<b>5,202,462,740</b>	5,202,462,740	5,202,462,740
Surplus (deficit)	<b>256,532,840</b>	(128,124,096)	<b>195,802,336</b>	(128,124,096)	(534,843,706)
Surplus reserves (Notes 19 and 25)	<b>133,738,711</b>	112,240,041	<b>133,738,711</b>	112,240,041	108,567,399
Remeasurement losses on retirement plan (Note 20)	<b>(22,966,553)</b>	(18,179,866)	<b>(22,966,553)</b>	(18,179,866)	(12,016,353)
Net unrealized gains (losses) on AFS investments (Note 7)	<b>(630,810,436)</b>	72,040,625	<b>(630,810,436)</b>	72,040,625	142,465,374
Cumulative translation adjustments	<b>(88,659,103)</b>	(4,667,540)	<b>(88,659,103)</b>	(4,667,540)	(194,268)
	<b>5,287,133,199</b>	5,672,606,904	<b>5,226,402,695</b>	5,672,606,904	5,343,276,186
	<b>₱45,876,694,668</b>	₱41,276,318,882	<b>₱43,335,440,423</b>	₱39,052,224,184	₱31,527,936,019

See accompanying Notes to Financial Statements.

**ROBINSONS BANK CORPORATION AND SUBSIDIARY**  
**STATEMENTS OF INCOME**

	Consolidated		Parent Company	
	Years Ended December 31			
	2013	2012 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)
<b>INTEREST INCOME ON</b>				
Loans and receivables (Note 8)	<b>₱1,620,114,438</b>	₱1,305,401,341	<b>₱1,364,091,796</b>	₱1,305,401,341
Investment securities (Note 7)	<b>424,293,844</b>	494,994,362	<b>424,293,844</b>	494,994,362
Interbank loans receivable (Note 6)	<b>80,117,930</b>	93,855,154	<b>80,117,930</b>	93,855,154
Due from Bangko Sentral ng Pilipinas and other banks	<b>33,281,729</b>	21,694,751	<b>15,446,843</b>	21,694,751
	<b>2,157,807,941</b>	1,915,945,608	<b>1,883,950,413</b>	1,915,945,608
<b>INTEREST EXPENSE ON</b>				
Deposit liabilities (Notes 15 and 24)	<b>558,108,231</b>	745,471,441	<b>498,533,728</b>	745,471,441
<b>NET INTEREST INCOME</b>	<b>1,599,699,710</b>	1,170,474,167	<b>1,385,416,685</b>	1,170,474,167
Service fees and commission income (Note 22)	<b>200,454,214</b>	153,391,432	<b>178,229,021</b>	153,391,432
Service fees and commission expense (Note 22)	<b>41,133,695</b>	33,838,541	<b>40,046,934</b>	33,838,541
<b>NET SERVICE FEE AND COMMISSION INCOME</b>	<b>159,320,519</b>	119,552,891	<b>138,182,087</b>	119,552,891
Trading and securities gain - net (Note 7)	<b>413,107,206</b>	563,698,626	<b>413,107,206</b>	563,698,626
Foreign exchange loss - net	<b>(12,067,448)</b>	(44,586,390)	<b>(12,123,170)</b>	(44,586,390)
Miscellaneous (Note 22)	<b>137,514,448</b>	59,653,559	<b>106,741,270</b>	59,653,559
<b>TOTAL OPERATING INCOME</b>	<b>2,297,574,435</b>	1,868,792,853	<b>2,031,324,078</b>	1,868,792,853
<b>OPERATING EXPENSES</b>				
Compensation and fringe benefits (Notes 20 and 24)	<b>401,983,044</b>	356,115,436	<b>359,896,061</b>	356,115,436
Occupancy and equipment-related costs (Notes 21 and 24)	<b>226,937,938</b>	175,469,317	<b>211,323,418</b>	175,469,317
Taxes and licenses (Note 23)	<b>209,686,425</b>	165,053,309	<b>182,559,886</b>	165,053,309
Security, messengerial and janitorial	<b>190,620,940</b>	105,027,382	<b>180,110,439</b>	105,027,382
Provision for credit and impairment losses (Note 14)	<b>171,711,627</b>	118,542,209	<b>109,164,080</b>	118,542,209
Depreciation and amortization (Note 10)	<b>163,861,185</b>	116,399,904	<b>143,319,500</b>	116,399,904
Insurance	<b>92,553,662</b>	77,367,498	<b>86,272,994</b>	77,367,498
Communication	<b>38,676,398</b>	27,159,303	<b>34,339,769</b>	27,159,303
Entertainment, amusement, and recreation (Note 23)	<b>33,422,674</b>	38,890,905	<b>31,660,529</b>	38,890,905
Information technology	<b>28,588,001</b>	25,991,410	<b>28,482,004</b>	25,991,410
Management and professional fees	<b>8,082,549</b>	7,455,810	<b>5,573,854</b>	7,455,810
Miscellaneous (Note 22)	<b>173,370,070</b>	115,503,579	<b>150,538,802</b>	115,503,579
<b>TOTAL OPERATING EXPENSES</b>	<b>1,739,494,513</b>	1,328,976,062	<b>1,523,241,336</b>	1,328,976,062
<b>INCOME BEFORE INCOME TAX</b>	<b>558,079,922</b>	539,816,791	<b>508,082,742</b>	539,816,791
<b>PROVISION FOR INCOME TAX</b> (Note 23)	<b>151,924,316</b>	129,424,539	<b>162,657,640</b>	129,424,539
<b>NET INCOME</b>	<b>₱406,155,606</b>	₱410,392,252	<b>₱345,425,102</b>	₱410,392,252

*See accompanying Notes to Financial Statements.*

**ROBINSONS BANK CORPORATION AND SUBSIDIARY**  
**STATEMENTS OF COMPREHENSIVE INCOME**

	Consolidated		Parent Company	
	Years Ended December 31			
	2013	2012 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)
<b>NET INCOME</b>	<b>₱406,155,606</b>	₱410,392,252	<b>₱345,425,102</b>	₱410,392,252
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR NET OF TAX</b>				
Items that may not be reclassified to profit or loss				
Change in remeasurement losses on retirement plan (Note 20)	<b>(4,786,687)</b>	(6,163,513)	<b>(4,786,687)</b>	(6,163,513)
Items that may be reclassified to profit or loss				
Change in net unrealized losses on AFS investments (Note 7)	<b>(702,851,061)</b>	(70,424,749)	<b>(702,851,061)</b>	(70,424,749)
Translation adjustments	<b>(83,991,563)</b>	(4,473,272)	<b>(83,991,563)</b>	(4,473,272)
	<b>(791,629,311)</b>	(81,061,534)	<b>(791,629,311)</b>	(81,061,534)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>(₱385,473,705)</b>	₱329,330,718	<b>(₱446,204,209)</b>	₱329,330,718

*See accompanying Notes to Financial Statements.*

**ROBINSONS BANK CORPORATION AND SUBSIDIARY**  
**STATEMENTS OF CHANGES IN EQUITY**

	Consolidated						
	Year Ended December 31, 2013						
	Common Stock (Note 19)	Preferred Stock (Note 19)	Surplus (Deficit)	Surplus Reserves	Remeasurement Losses on Retirement Plan (Note 20)	Net Unrealized Gains (Losses) (Note 7)	Cumulative Translation Adjustments Total
Balance at January 1, 2013, as previously reported	P436,835,000	P5,202,462,740	(P128,808,766)	P112,240,041	P-	P72,040,625	(P4,667,540)
Effects of adoption of PAS 19R (Note 2)	-	-	684,670	-	(18,179,866)	-	P5,690,102,100
Balance at January 1, 2013, as restated	436,835,000	5,202,462,740	(128,124,096)	112,240,041	(18,179,866)	72,040,625	(4,667,540)
Total comprehensive income for the year	-	-	406,155,606	-	(4,786,687)	(702,851,061)	5,672,606,904
Appropriation for self-insurance (Note 19)	-	-	(21,498,670)	21,498,670	-	-	(385,473,705)
<b>Balance at December 31, 2013</b>	<b>P436,835,000</b>	<b>P5,202,462,740</b>	<b>P256,532,840</b>	<b>P133,738,711</b>	<b>(P22,966,553)</b>	<b>(P630,810,436)</b>	<b>(P88,659,103)</b>
							<b>P5,287,133,199</b>

## ROBINSONS BANK CORPORATION AND SUBSIDIARY STATEMENTS OF CHANGES IN EQUITY

	Parent Company						
	Year Ended December 31, 2013						
	Common Stock (Note 19)	Preferred Stock (Note 19)	Surplus (Deficit)	Reserves	Retirement Plan (Note 20)	Unrealized Gains (Losses) (Note 7)	Cumulative Translation Adjustments
Balance at January 1, 2013, as previously reported	P436,835,000	P5,202,462,740	P128,808,766	P112,240,041	P-	P72,040,625	P4,667,540
Effects of adoption of PAS 19R (Note 2)	-	-	684,670	-	(18,179,866)	-	-
Balance at January 1, 2013, as restated	436,835,000	5,202,462,740	(128,124,096)	112,240,041	(18,179,866)	72,040,625	(4,667,540)
Total comprehensive income for the year	-	-	345,425,102	-	(4,786,687)	(702,851,061)	(83,991,563)
Appropriation for self-insurance (Note 19)	-	-	(21,498,670)	21,498,670	-	-	-
<b>Balance at December 31, 2013</b>	<b>P436,835,000</b>	<b>P5,202,462,740</b>	<b>P195,802,336</b>	<b>P133,738,711</b>	<b>(P22,966,553)</b>	<b>(P630,810,436)</b>	<b>(P88,659,103)</b>

	Consolidated and Parent Company						
	Year Ended December 31, 2012						
	Common Stock (Note 19)	Preferred Stock (Note 19)	Surplus (Deficit)	Reserves	Retirement Plan (Note 20)	Unrealized Gains (Losses) (Note 7)	Cumulative Translation Adjustments
Balance at January 1, 2012, as previously reported	P436,835,000	P5,202,462,740	P534,843,706	P108,567,399	P-	P142,465,374	P194,268
Effects of adoption of PAS 19R (Note 2)	-	-	-	-	(12,016,353)	-	-
Balance at January 1, 2012, as restated	436,835,000	5,202,462,740	(534,843,706)	108,567,399	(12,016,353)	142,465,374	(194,268)
Total comprehensive income for the year, as previously reported	-	-	409,707,582	-	-	(70,424,749)	(4,473,272)
Effects of adoption of PAS 19R (Note 2)	-	-	684,670	-	(6,163,513)	-	-
Total comprehensive income for the year, as restated	-	-	410,392,252	-	(6,163,513)	(70,424,749)	(4,473,272)
Appropriation for self-insurance (Note 19)	-	-	(3,600,000)	3,600,000	-	-	-
Appropriation for trust (Note 25)	-	-	(72,642)	72,642	-	-	-
Balance at December 31, 2012, as restated	P436,835,000	P5,202,462,740	P128,124,096	P112,240,041	P18,179,866	P72,040,625	P4,667,540

See accompanying Notes to Financial Statements.

## ROBINSONS BANK CORPORATION AND SUBSIDIARY

### STATEMENTS OF CASH FLOWS

	Consolidated		Parent Company	
	Years Ended December 31			
	2013	2012 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax	₱558,079,922	₱539,816,791	₱508,082,742	₱539,816,791
Adjustments for:				
Gain on sale of available-for-sale investments (Note 7)	(365,458,901)	(438,406,346)	(365,458,901)	(438,406,346)
Provision for credit and impairment losses (Note 14)	171,711,627	118,542,209	109,164,080	118,542,209
Depreciation and amortization (Note 10)	163,861,185	116,399,904	143,319,500	116,399,904
Gain on initial recognition of investment properties (Note 22)	(35,943,862)	(5,179,905)	(34,506,401)	(5,179,905)
Loss on initial recognition of repossessed chattels (Note 22)	25,703,594	17,218,087	25,703,594	17,218,087
Retirement expense (Note 20)	14,555,500	12,570,000	14,063,276	12,570,000
Gain on sale of investment properties (Note 22)	(6,783,867)	(110,039)	-	(110,039)
Gain on sale of repossessed chattels (Note 22)	(6,375,484)	(4,785,836)	(6,375,484)	(4,785,836)
Gain on sale of property and equipment (Note 22)	(128,670)	(1,257,745)	(274,726)	(1,257,745)
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Derivative assets	109,088,614	(29,807,747)	109,088,614	(29,807,747)
Financial assets at fair value through profit or loss	1,090,691,022	(2,185,673,337)	1,090,691,022	(2,185,673,337)
Loans and receivables	(792,827,527)	(4,358,514,766)	(644,788,001)	(4,358,514,766)
Other assets	(231,235,850)	(64,682,373)	(230,132,453)	(75,198,940)
Increase (decrease) in:				
Deposit liabilities	4,811,926,867	6,740,198,379	4,475,780,979	6,740,198,379
Manager's checks	66,331,078	29,406,762	66,331,078	29,406,762
Accrued expenses and other liabilities	117,285,684	409,547,303	165,434,717	416,004,769
Net cash generated from operations	5,690,480,932	895,281,341	5,426,123,636	891,222,240
Income taxes paid	(179,403,174)	(136,021,409)	(175,767,302)	(136,021,409)
Net cash provided by operating activities	5,511,077,758	759,259,932	5,250,356,334	755,200,831
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of:				
Placements with other banks (Note 28)	-	(346,359,353)	-	(346,359,353)
Available-for-sale investments	(6,475,597,440)	(21,167,120,393)	(6,475,597,440)	(21,167,120,393)
Held-to-maturity investment (Note 7)	(75,000,000)	-	(75,000,000)	-
Investment in a subsidiary (Note 9)	-	-	-	(731,000,000)
Property and equipment (Notes 10 and 28)	(173,983,803)	(121,821,784)	(166,873,643)	(121,821,784)
Branch licenses (Note 12)	(5,400,000)	(2,400,000)	(5,400,000)	(2,400,000)
Software costs (Note 13)	(3,405,000)	(2,624,832)	-	(2,624,832)
Cash acquired from business combination, net of cash paid (Note 9)	-	249,157,091	-	-
Proceeds from sale of:				
Available-for-sale investments	7,603,214,077	20,690,557,212	7,571,900,064	20,690,557,212
Property and equipment	6,458,704	4,224,576	4,766,977	4,224,576
Investment properties	35,974,592	7,785,165	-	7,785,165
Repossessed chattels	61,162,540	56,110,234	61,162,540	56,110,234
Proceeds from maturity of placements with Bangko Sentral ng Pilipinas and other banks (Note 28)	247,359,353	1,000,207,261	247,359,353	1,000,207,261
Net cash provided by (used in) investing activities	1,220,783,023	367,715,177	1,162,317,851	(612,441,914)

(Forward)

	<b>Consolidated</b>		<b>Parent Company</b>	
	<b>Years Ended December 31</b>			
		2012 (As Restated - Note 2)		2012 (As Restated - Note 2)
	<b>2013</b>		<b>2013</b>	
<b>EFFECTS OF FOREIGN EXCHANGE</b>				
<b>RATE CHANGES</b>	<b>(₱83,991,563)</b>	(₱4,473,272)	<b>(₱83,991,563)</b>	(₱4,473,272)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>				
	<b>6,647,869,218</b>	1,122,501,837	<b>6,328,682,622</b>	138,285,645
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
Cash and other cash items	<b>1,038,282,061</b>	701,098,433	<b>987,867,163</b>	701,098,433
Due from Bangko Sentral ng Pilipinas	<b>8,106,584,476</b>	4,547,421,010	<b>7,350,141,875</b>	4,547,421,010
Due from other banks (Note 28)	<b>1,923,568,643</b>	1,897,413,900	<b>1,746,209,950</b>	1,897,413,900
Interbank loans receivable (Note 28)	-	2,800,000,000	-	2,800,000,000
	<b>11,068,435,180</b>	9,945,933,343	<b>10,084,218,988</b>	9,945,933,343
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
Cash and other cash items	<b>1,143,258,839</b>	1,038,282,061	<b>1,109,208,879</b>	987,867,163
Due from Bangko Sentral ng Pilipinas	<b>11,437,995,107</b>	8,106,584,476	<b>10,287,995,577</b>	7,350,141,875
Due from other banks (Note 28)	<b>2,135,050,452</b>	1,923,568,643	<b>2,015,697,154</b>	1,746,209,950
Interbank loans receivable (Note 28)	<b>3,000,000,000</b>	-	<b>3,000,000,000</b>	-
	<b>₱17,716,304,398</b>	₱11,068,435,180	<b>₱16,412,901,610</b>	₱10,084,218,988
<b>OPERATIONAL CASH FLOWS FROM INTEREST</b>				
Interest received	<b>₱2,203,388,081</b>	₱1,914,198,875	<b>₱1,920,474,514</b>	₱1,914,198,875
Interest paid	<b>591,152,258</b>	732,734,547	<b>531,170,100</b>	732,734,547

*See accompanying Notes to Financial Statements.*

# **ROBINSONS BANK CORPORATION AND SUBSIDIARY**

---

## **NOTES TO FINANCIAL STATEMENTS**

---

### **1. Corporate Information**

Robinsons Bank Corporation (the Parent Company or the Bank) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on April 28, 1966 and acquired its license from Bangko Sentral ng Pilipinas (BSP) to operate as a commercial bank on March 1, 2002. On March 21, 2013, the SEC granted the license extending the Bank's corporate life for another fifty (50) years. The Parent Company and its subsidiary (the Group) is engaged in commercial and thrift banking, respectively, whose principal activities include deposit-taking, lending, foreign exchange dealing and fund transfers or remittance servicing.

The registered address and principal place of business of the Parent Company is at 17th Floor, Galleria Corporate Center, EDSA corner Ortigas Avenue, Quezon City.

The Parent Company is 60.00% and 40.00% owned by JG Summit Capital Services Corp. (JCSC) and Robinsons Retail Holdings, Inc. (RRHI), respectively. The ultimate parent company of the Bank is JG Summit Holdings, Inc.

In December 2012, the Parent Company acquired 100.00% controlling interest in Legazpi Savings Bank, Inc. (LSB) (see Note 9).

LSB was incorporated and registered with the SEC on May 8, 1976 and acquired license from the BSP to operate as a thrift bank. LSB's registered address and principal place of business is at Rizal Street, Barangay Sagpon, Albay, Legazpi City.

---

### **2. Summary of Significant Accounting Policies**

#### **Basis of Preparation**

The accompanying financial statements of the Group and of the Parent Company 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 which are measured at fair value (see accounting policy on Fair Value Measurement).

The accompanying financial statements provide comparative information in respect of the previous years. An additional statement of financial position at the beginning of the earliest year presented is included when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements. A statement of financial position as at January 1, 2012 is presented in the 2013 financial statements due to the retrospective application of a certain accounting policy as discussed in this Note.

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

The financial statements are presented in Philippine peso, and 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 Philippine Financial Reporting Standards (PFRS).

#### Presentation of Financial Statements

The Group and the Parent Company present its statements of financial position in the order of liquidity. An analysis regarding the recovery or settlement within twelve (12) months after the statement of financial position date (current) and more than twelve (12) months after the statement of financial position date (non-current) is presented in Note 18.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position 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 liability simultaneously. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group and of the Parent Company.

#### Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and of its subsidiary and are prepared for the same reporting period as the Parent Company using consistent accounting policies. LSB is the wholly-owned domestic subsidiary of the Parent Company which was acquired on December 26, 2012. However, for convenience purposes, the Group used December 31, 2012 as the cut-off date in determining the net assets acquired. Therefore, only the fair values of the identifiable assets and liabilities of LSB as of December 31, 2012 were consolidated and the profit and loss of LSB for the year ended December 31, 2012 were excluded from the Group's consolidated financial statements as of December 31, 2012 (see Note 9).

All intra-group balances, transactions, income and expenses and profit and losses resulting from intra-group transactions are eliminated in full in the consolidation. A subsidiary is fully consolidated from the date in which control is transferred to the Parent Company. Control is achieved where the Parent Company is exposed, or has the rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary ceases when control is transferred out of the Parent Company. The results of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- derecognizes the related other comprehensive income recorded in equity and recycles the same to statement of income or surplus;

- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained; and
- recognizes any surplus or deficit in statement of income.

#### Changes in Accounting Policies and Disclosures

The Group applied, for the first time, the following applicable new and revised accounting standards. Unless otherwise indicated, these new and revised accounting standards have no impact to the Group. Except for these standards and amended PFRS which were adopted as of January 1, 2013, the accounting policies adopted are consistent with those of the previous financial year.

#### *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 Philippine Accounting Standard (PAS) 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or ‘similar agreement’, irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

#### *PFRS 10, Consolidated Financial Statements*

The Group adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

#### *PFRS 12, Disclosure of Interests in Other Entities*

PFRS 12 sets out the requirements for disclosures relating to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). The Group has no unconsolidated structured entities.

#### *PFRS 13, Fair Value Measurement*

PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

Application of PFRS 13 has no material impact on the fair value measurement of the Group. Information on fair value measurement is disclosed in Note 5.

#### *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)*

On January 1, 2013, the Group adopted the Revised PAS 19 Employee Benefits.

For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised PAS 19, the Group recognized actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are shown in the statement of comprehensive income. Past service costs, if any, are recognized immediately in statement of income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In such a case, the past service costs are amortized on a straight-line basis over the vesting period.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee’s entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Group’s financial position and financial performance.

The adoption of Revised PAS 19, which required retrospective application, resulted in the restatement of previously reported retirement obligation/asset of the Parent Company. The adjustment amounts were determined by the Parent Company with the assistance of an external actuary. The Parent Company had chosen to close to ‘Remeasurement losses on retirement plan’ in OCI the net effect of all transition adjustments as at January 1, 2012 (the transition date) upon

retrospective application of the Revised PAS 19. After the transition date, the Parent Company will retain the remeasurements recognized in other comprehensive income and will not transfer these to other items in equity.

The effects of adoption on the financial statements follow:

	December 31, 2012	January 1, 2012
<u>Increase (decrease) in:</u>		
<u>Statements of financial position</u>		
Retirement liability	₱24,993,136	₱17,166,218
Deferred tax asset	7,497,940	5,149,865
Other comprehensive income	(18,179,866)	(12,016,353)
Surplus	684,670	–
<u>Statement of income</u>		
Retirement expense	(₱978,100)	
Provision for income tax	293,430	
<u>Net income</u>	<u>₱684,670</u>	
<u>Statement of comprehensive income</u>		
Remeasurement losses on retirement plan	₱8,805,019	
Tax effect	(2,641,506)	
<u>Total comprehensive income for the year</u>	<u>(₱6,163,513)</u>	

The statement of cash flows has been restated to reflect the effect of the adoption of this standard.

#### *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, jointly controlled entities, and associates in the separate financial statements.

#### *Annual Improvements to PFRS (2009 - 2011 cycle)*

The *Annual Improvements to PFRS (2009 - 2011 cycle)* contain non-urgent but necessary amendments to PFRS. The Group adopted these amendments for the current year:

#### *PAS 1, Presentation of Financial Statements - Clarification of the requirements for comparative information*

These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result, the Group has not included comparative information in respect of the opening statement of financial position as at January 1, 2012.

*PAS 16, Property, Plant and Equipment - Classification of servicing equipment*

The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise.

*PAS 32, Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.

The following new and amended PFRS, Philippine Interpretations and PAS did not have any impact on the financial position or performance of the Parent Company:

- PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans (Amendments)*
- PFRS 11, *Joint Arrangements*
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
- Philippine Interpretation International Financial Reporting Standards Interpretations (IFRIC) 20, *Stripping Costs in the Production Phase of a Surface Mine*
- *Annual Improvements to PFRS (2009-2011 cycle)*
  - PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
  - PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*

## **Significant Accounting Policies**

### Fair Value Measurement

For measurement and disclosure purposes, the Group determines the fair value of an asset or a liability at initial measurement date or at each statement of financial position date. 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.

## Foreign Currency Translation

### *Transactions and balances*

The books of accounts of the RBU are maintained in Philippine peso, while those of the FCDU are maintained in USD. For financial reporting purposes, FCDU accounts and the foreign currency-denominated monetary assets and liabilities in the RBU are translated into their equivalents in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at the end of the year and, foreign currency-denominated income and expenses based on the spot exchange rate 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 the statement of income under 'Foreign exchange loss - net' in the year in which the rates change. Foreign exchange differences arising on translation of FCDU accounts to peso are taken to OCI under 'Translation adjustments'.

### 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 interbank loans receivable with original maturities of three (3) months or less from dates of placements and that are subject to insignificant risk of changes in value.

## Financial Instruments - Initial Recognition and Subsequent Measurement

### *Date of recognition*

Purchases or sales of financial instruments that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Settlement date accounting refers to (a) 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. Derivatives are recognized on a trade date basis. Deposits, amounts due from banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

### *Initial recognition of financial instruments*

All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, AFS investments, held-to-maturity (HTM) investments, and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and financial liabilities at amortized cost. The classification depends on the purpose for which the financial instruments were acquired and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every statement of financial position date.

### *'Day 1' difference*

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

#### *Derivative financial instruments*

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 cash flow hedge) 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.

#### *Financial assets held for trading*

Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value relating to the held for trading positions are recognized in 'Trading and securities gain - net' and interest earned is recorded in 'Interest income'. Included in this classification are debt securities which have been acquired principally for the purpose of selling and repurchasing in the near term.

#### *AFS investments*

AFS investments are non-derivative financial assets designated as AFS or which do not qualify to be classified as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, government securities and other debt 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 income and are reported as part of OCI.

When an AFS investment is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gain - net' in the statement of income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS debt investments are reported as 'Interest income' using the effective interest rate (EIR) method. Dividends earned on holding AFS equity investments are recognized in the statement of income as 'Miscellaneous income' when the right of the payment has been established. The losses arising from impairment of AFS investments are recognized as 'Provision for credit and impairment losses' in the statement of income.

#### *HTM investments*

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments before their maturity, the entire category would be tainted and reclassified as AFS investments. Once tainted, the Group is not permitted to classify any of its financial assets as HTM investments for the next two fiscal years after the year of reclassification. In 2013, following the provision of PAS 39, *Financial Instruments: Recognition and Measurement*, the Group classified a certain investment under the HTM category. Previously, the Group was only allowed to classify any investment under the HTM category after the lapse of two years from the reclassification made in 2010 as a result of its participation in the Global Bond Exchange offered by the Republic of the Philippines.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Gains and losses are recognized in profit or loss in the consolidated statement of comprehensive income when the HTM investments are derecognized and impaired, as well as through the amortization process. The effects of restatement of foreign currency-denominated HTM investments are recognized in profit or loss in the consolidated statement of comprehensive income.

#### *Loans and receivables*

This category comprises 'Cash and other cash items', 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', Loans and receivables' and some items in 'Other assets'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for credit losses and unearned interest discount. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that form 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.

#### *Financial liabilities at amortized cost*

This category represents issued financial instruments or their components, which are not designated at FVPL and comprises 'Deposit liabilities', 'Manager's checks' and some items in 'Accrued expenses and other liabilities' in the statement of financial position, 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 ('compound' financial instruments) are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, financial liabilities at amortized cost are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and debt issuance costs that form an integral part of the EIR.

### Derecognition of Financial Assets and Liabilities

#### *Financial asset*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar 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 the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over 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 over 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 the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Financial liability*

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.

#### Impairment of Financial Assets

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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 a measurable decrease in the estimated future cash flows of the financial asset or group of financial assets, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortized cost*

For loans and receivables and HTM investments, the Group first assesses at each statement of financial position date whether objective evidence of impairment exists individually for financial assets carried at amortized cost that are individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of 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), discounted using the financial asset's original EIR. If a financial asset carried at amortized cost has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of collateralized financial assets reflects the cash flows that may result from foreclosure, less cost for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of loss is charged to the statement of income as 'Provision for credit and impairment losses'. 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 subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Provision for credit and impairment losses' in the statement of income.

If the Group determines that no objective evidence of impairment exists for individually-assessed loans and receivables, whether significant or not, it includes the asset in a group of assets with similar credit risk characteristics and collectively assesses for impairment in order to capture losses which the Group believes has been incurred during the reporting period, but has not yet identified to specific financial assets. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, loans and receivables are grouped on the basis of asset type, industry, collateral type, past-due status and other relevant factors. Those groupings reflect credit risk characteristics relevant to the estimation of future cash flows and indicative of the debtors' ability to pay all amounts due according to the contractual terms of the loans and receivables being evaluated.

Future cash flows in a group of loans and receivables that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets within the same credit risk groupings. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions. Estimates of changes in future cash flows reflect changes in related observable data from year to year (such as changes in unemployment rates, property prices, payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The Group also uses the Net Flow Rate method to determine the credit loss rate of a particular delinquency age bucket based on historical data of flow-through and flow-back of loans across specific delinquency age buckets. The allowance for credit losses is determined based on the results of the net flow to write-off methodology. Net flow tables are derived from monitoring of monthly peso movements between different stage buckets, from 1-day past due to 180-day past due. The net flow to write-off methodology relies on the last 12 months of net flow tables to establish a percentage ('net flow rate') of receivables from customers that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 day past due) as of reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of the receivables as of statement of financial position date and the net flow rates determined for the current and each delinquency bucket. This gross provision is reduced by the estimated recoveries, which are also based on historical data, to arrive at the required allowance for credit losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

#### *Renegotiated loans*

Where possible, the Group seeks to restructure past due loans rather than take possession of the related collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated 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 equity securities classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in OCI is removed from OCI and recognized in the statement of income. Impairment losses on equity securities are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI.

For debt securities classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest income from impaired AFS debt securities is based on the reduced carrying amount and is accrued based on the original EIR used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If subsequently, the fair value of a debt security increases 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.

### Property and Equipment

Depreciable property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged against operations in the year 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 property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization is calculated using the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The estimated useful lives of property and equipment follow:

Building	25 years
Transportation equipment	5 years
Leasehold improvements	5 years
Furniture, fixtures and equipment	3 to 5 years

The useful lives 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 the 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 amount, an impairment loss is recognized in the statement of income (see accounting policy on Impairment of Nonfinancial Assets).

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

#### Investment in a Subsidiary

Subsidiary pertains to entity over which the Parent Company has control. Control is achieved when the Parent Company 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. When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contra arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Parent Company's voting rights and potential voting rights.

As of December 31, 2013 and 2012, the sole and wholly owned subsidiary of the Parent Company is LSB.

#### Investment Properties

Investment properties are measured initially at cost, including transaction costs. Transaction costs represent nonrefundable taxes such as capital gains tax and documentary stamp tax that are for the account of the Group. 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 fair value of asset given up. Foreclosed properties are classified as investment properties upon: a) entry of judgment in case of judicial foreclosure; b) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c) notarization of the Deed of Dacion in case of dacion in payment (dacion en pago). The difference between the fair value of the asset acquired and the carrying amount of the asset given up is recognized as gain (loss) on initial recognition of investment properties in the statement of income.

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

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

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 but not to exceed ten (10) years for buildings.

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

For a transfer from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in compliance with the policy stated under property and equipment up to the date of change in use.

#### Other Assets - Repossessed Chattels

Repossessed chattels represent other repossessed items comprising mainly of repossessed vehicles. Repossessed chattels are stated at cost less accumulated depreciation and impairment in value. Depreciation is calculated on a straight-line basis using the remaining useful lives of the vehicles from the time of acquisition. The useful lives of repossessed chattels are estimated to be five (5) years.

#### Business Combinations and Goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the statement of income in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Parent Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if event or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated at each of the Parent Company's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with PFRS 8, *Operating Segments*.

Where goodwill has been allocated to a CGU and part of the operation within the unit is disposed of, the goodwill associated with the operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and net assets plus cumulative translation differences and goodwill is recognized in the statement of income.

#### Intangible Assets

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. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

#### *Branch licenses*

Branch licenses arise from the acquisition of branches of a local bank by the Parent Company. The Parent Company's branch licenses have indefinite useful lives and are subject to annual individual impairment testing.

Branch licenses are determined to have indefinite useful lives. These are tested for impairment annually either individually or at the CGU level. Such intangibles are not amortized. The useful life is reviewed annually to determine whether indefinite useful life assessment continues to be supportable. If not, the change in the useful life from indefinite to finite is made on a prospective basis.

#### *Software costs*

Software costs are carried at cost less accumulated amortization and any impairment loss. Software costs are amortized on a straight-line basis over the estimated useful life which is five (5) years.

#### *Software development costs*

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and that will probably generate economic benefits exceeding costs beyond one (1) year are capitalized. These costs are capitalized during the period of software development and are amortized on a straight-line basis over a period of seven (7) years upon completion. The amortization is revised prospectively to reflect the new expectations.

#### Impairment of Nonfinancial Assets

##### *Property and equipment, investment in a subsidiary, investment properties and repossessed chattels*

At each statement of financial position date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not

generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU).

An impairment loss is charged to operations in the year in which it arises. An assessment is made at each statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset (or CGU) is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset (or CGU) is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

#### *Intangible assets*

Intangible assets with indefinite useful lives are tested for impairment annually at the statement of financial position date either individually or at the CGU level, as appropriate. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Group and the revenue can be measured reliably. The Group concluded that it is acting as a principal in all of its revenue arrangements. 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, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income'.

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

#### *Interest income - finance lease*

The excess of aggregate lease rentals plus the estimated residual value over the cost of the leased investment property constitutes the unearned lease income. Residual values represent estimated proceeds from the disposal of investment property at the time lease is estimated. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed using the EIR method.

Unearned lease income ceases to be amortized when the lease contract receivables become past due for more than three months.

#### *Service fees and commission income*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, portfolio fees, credit-related fees and other service and management fees. Fees on deposit-related accounts are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collection.

#### *Dividend income*

Dividend income, included in 'Miscellaneous income', is recognized when the Group's right to receive payment is established.

#### *Trading and securities gain (loss) - net*

Trading and securities gain (loss) - net represent results arising from disposal of AFS investments and trading activities including all gains and losses from changes in fair value of financial assets at FVPL.

#### *Rental income*

Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

#### *Income from sale of property and equipment, investment property and repossessed chattels*

Income from sale of property and equipment, investment property and repossessed chattels is recognized upon completion of the earning process and the collectability of the sales price is reasonably assured.

#### Expense Recognition

Expenses are recognized when it is probable that decrease in future economic benefits related to the decrease in asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Expenses that may arise in the course of ordinary regular activities of the Group include, among others, the operating expenses on the Group's operation.

#### Borrowing Cost

Borrowing costs are capitalized if they are directly attributable to the acquisition of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the qualifying assets are in progress and expenditures and borrowing costs are incurred. Borrowing costs are capitalized until the qualifying assets are substantially ready for their intended use. All other borrowing costs are expensed as incurred.

#### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset;  
or
- d. there is a substantial change to the asset.

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

#### *Group as lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Any rental payments are accounted for on a straight-line basis over the lease term and included in 'Occupancy and equipment-related costs' in the statement of income.

#### *Group as lessor*

Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and receivables' account. A lease receivable is recognized at an amount equal to the net investment in the lease. All income resulting from the receivables is included in 'Interest income on loans and receivables' in the statement of income.

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

#### Retirement Cost

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

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 the statement of income. 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 the statement of income.

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 OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund 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 and 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. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense' in the 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.

## Income Taxes

### *Current tax*

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

### *Deferred tax*

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

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

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

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

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

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

### Events after the Statement of Financial Position Date

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

### **Standards and Interpretations Issued but not yet Effective**

Standards and interpretations issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt these standards and interpretations when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these standards and interpretations to have significant impact on the Group's financial statements.

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

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments have no significant impact on the Group's financial position or performance.

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

These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments have no significant impact on the Group's financial position or performance.

*Philippine Interpretation IFRIC 21, Levies (IFRIC 21)*

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

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

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

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

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

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

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

The Group will assess the impact of these amendments on its financial position or performance when they become effective.

*Annual Improvements to PFRS (2010-2012 cycle)*

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

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

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment is not relevant to the Group.

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

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

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

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

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

The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment has no significant impact on the Group's financial position or performance.

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

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

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

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

*PAS 24, Related Party Disclosures - Key Management Personnel*

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

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

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

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

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

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

*Annual Improvements to PFRS (2011-2013 cycle)*

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

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

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. The amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

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

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

#### *PFRS 13, Fair Value Measurement - Portfolio Exception*

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

#### *PAS 40, Investment Property*

The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is 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. The amendment has no significant impact on the Group's financial position or performance.

#### *Mandatory Date Yet to Be Determined*

##### *PFRS 9, Financial Instruments*

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

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

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

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

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. This interpretation is not relevant to the Group.

---

### 3. Significant Accounting Judgments and Estimates

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

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

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

#### Judgments

##### a) *Going concern*

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

##### b) *HTM investments*

The classification under HTM investments requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost.

c) *Leases*

Operating lease

*Group as lessee*

The Group has entered into commercial property leases for its head office and branch premises. The Group has determined, based on the evaluation of the terms and conditions of the lease agreement (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life), that the lessor retains all the significant risks and rewards of ownership of the properties which are leased out on operating leases

Finance lease

*Group as lessor*

The Group has determined based on an evaluation of terms and conditions of the lease arrangements (i.e., present value of minimum lease payments amounts to at least substantially all of the fair value of leased asset, lease term is for the major part of the economic useful life of the asset, and lessor's losses associated with the cancellation are borne by the lessee) that it has transferred all significant risks and rewards of ownership of the properties it leases out on finance leases.

d) *Fair value of financial instruments*

Where the fair values of financial instruments recorded in the statement of financial position cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include consideration of liquidity, correlation and volatility for longer dated derivatives.

e) *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. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

f) *Contingencies*

The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsel handling the Group's defense in this matter and is based upon an analysis of potential results. Management does not believe that the outcome of this matter will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to this proceedings (see Note 26).

g) *Functional currency*

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the 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.

#### Estimates

##### a) *Fair value of derivatives*

The fair values of derivatives that are not quoted in active markets are determined using valuation techniques such as discounted cash flow analysis and standard option pricing models. 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.

##### b) *Credit losses on loans and receivables*

The Group reviews its loans and receivables at each statement of financial position date to assess whether a credit 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.

The carrying value of and the allowance for credit losses on loans and receivables of the Group and of the Parent Company as of December 31, 2013 and 2012 are disclosed in Note 8.

##### c) *Impairment of AFS debt securities*

The Group reviews its debt securities classified as AFS investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment applied to the individual assessment of loans and receivables.

No impairment loss was recognized on AFS debt securities in 2013 and 2012 (see Note 7).

The carrying value of AFS debt securities of the Group and of the Parent Company as of December 31, 2013 and 2012 are disclosed in Note 7.

##### d) *Impairment of AFS equity securities*

The Group treats AFS equity securities as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20.00% or more and 'prolonged' greater than twelve (12) months. In addition, the Group evaluates other factors, including normal volatility in share prices for quoted equities and the future cash flows and discount factors for unquoted equity investments.

No impairment loss was recognized on AFS equity securities in 2013 and 2012 (see Note 7).

The carrying value of AFS equity securities of the Group and of the Parent Company as of December 31, 2013 and 2012 are disclosed in Note 7.

##### e) *Valuation of unquoted equity securities*

The Group's investments 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 impairment losses.

The carrying value of unquoted AFS equity securities of the Group and of the Parent Company as of December 31, 2013 and 2012 are disclosed in Note 7.

f) *Impairment of nonfinancial assets*

*Property and equipment, investment properties and repossessed chattels*

The Group assesses impairment on property and equipment, investment properties and repossessed chattels 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:

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach for property and equipment and fair value less costs to sell for investment properties and repossessed chattels. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGV to which the asset belongs.

The carrying values of and the allowance for impairment losses, if any, on property and equipment, investment properties and repossessed chattels of the Group and of the Parent Company are disclosed in Notes 10, 11, 13 and 14, respectively.

No impairment loss was recognized on property and equipment in 2013 and 2012 (see Note 10).

*Branch licenses*

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

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

No additional impairment was recognized for the Group's branch licenses in 2013 and 2012. The carrying amounts of branch licenses as of December 31 2013 and 2012 approximate their respective fair values less cost to sell. The carrying values of branch licenses of the Group are disclosed in Note 12.

*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 is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. The Group estimated the discount rate used for the computation of the net present value be referenced to industry

cost of capital. Future cash flows from the business are estimated based on the theoretical annual income of the CGUs. Average growth rate was derived from the average increase in annual income during the last five (5) years. The recoverable amount of the CGU has been determined based on a value in use calculations using cash flow projections from financial budgets approved by senior management covering a five-year period. In 2013, the applicable pre-tax discount rate applied to cash flow projections is 13.09%. Key assumptions in value in use calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows.

The carrying values of goodwill of the Group are disclosed in Note 9.

#### *Software costs*

Software costs are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying values may be impaired.

The carrying values of and the allowance for impairment losses, if any, on software costs of the Group and of the Parent Company are disclosed in Note 13.

No impairment loss was recognized on software costs in 2013 and 2012 (see Note 13).

#### g) *Recognition of deferred taxes*

Deferred tax assets are recognized for all unused tax losses 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 estimates of future taxable income indicate that certain temporary differences will be realized in the future. Details of recognized and unrecognized deferred tax assets on temporary differences are disclosed in Note 23.

#### h) *Present value of retirement liability*

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

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

The present value of the Parent Company's defined benefit obligation as of December 31, 2013 and 2012 is disclosed in Note 20.

---

## 4. Financial Risk Management Objectives and Policies

The main risks arising from the Group's financial instruments are credit, market and liquidity risks. In general, the Group's risk management objective is to ensure that risks taken are within the Group's risk appetite, which is assessed based on the Group's capital adequacy framework. The risk management process involves risk identification, measurement, monitoring and control.

The Group recognizes that risk management is the responsibility of the entire organization. Accordingly, all employees are expected to manage risks relating to their own responsibilities. Still, there are specialized entities within the Group that perform certain risk management functions.

The Board of Directors (BOD) ultimately oversees and approves significant matters related to risk management throughout the Parent Company, upon the review and recommendation of various committees composed of members of the BOD and Senior Management. Among the Parent Company's committees are:

- the Corporate Governance Committee, which ensures the BOD's effectiveness and due observance of the corporate governance principles and guidelines;
- the Risk Management Committee (RMC), which is responsible for the development and oversight of the Parent Company's risk management program;
- the Audit Committee, which examines the Parent Company's framework of risk management, control and governance process to ensure that these are adequate and functional; and
- the Credit Committee, which recommends credit policies and evaluates credit applications.

The following units within the Parent Company jointly perform risk management functions on a daily basis:

- Compliance for regulatory risk;
- Treasury for funding and liquidity risk;
- Credit Cycle Operations for credit risk;
- Enterprise Risk Management Unit (ERMU) for various risks, including market risk; credit and operational risks; and
- Internal Audit for the evaluation of the adequacy of internal control systems, covering operational risk.

These units submit various risk reports to the Management Committee, the RMC and the BOD, among others.

Further specific risk management disclosures, including mitigation, measurement and control, are in the succeeding sections.

### Credit Risk

Credit risk may be defined as the possibility of loss due to the failure of a customer/borrower or counterparty to perform its obligation to the Group.

The Group has several credit risk mitigation practices:

- The Group offers a variety of loan products with substantial collateral values. The latter part of this credit risk section discusses collateral and other credit enhancements.
- Limits are set on the amount of credit risk that the Group is willing to take for customers and counterparties, and exposures are monitored against such credit limits.
- The Group also observes related regulatory limits such as the single borrower's limit (SBL) and directors, officers, stockholders and related interests (DOSRI) ceiling.
- To protect against settlement risk, the Group employs a delivery-versus-payment (DvP) settlement system, wherein payment is effected only when the corresponding asset has been delivered.
- There is an internal credit risk rating system (ICRRS) in place, providing a structured format for collating and analyzing borrower data to arrive at a summary indicator of credit risk.

- Past due and non-performing loan (NPL) ratios are also used to measure and monitor the quality of the loan portfolio.

*Maximum exposure to credit risk*

The table below shows the Group's net credit risk exposure for financial assets with maximum exposure to credit risk different from its carrying amounts after considering the financial effect of collateral and other credit enhancements:

<b>Consolidated</b>				
<b>December 31, 2013</b>				
	<b>Carrying Amount</b>	<b>Fair Value of Collateral</b>	<b>Financial Effect of Collateral</b>	<b>Maximum Exposure to Credit Risk</b>
Interbank loans receivable	₱3,099,000,000	₱3,102,512,904	₱3,099,000,000	₱-
Loans and receivables:				
Receivables from customers:				
Consumption	1,541,641,656	844,335,520	844,335,520	697,306,136
Commercial	1,074,891,295	2,127,396,668	886,562,200	188,329,095
Real estate	2,853,251,997	5,254,030,943	2,853,251,997	-
Other receivables:				
Sales contract receivable	107,295,629	129,030,344	107,295,629	-
	<b>₱8,676,080,577</b>	<b>₱11,457,306,379</b>	<b>₱7,790,445,346</b>	<b>₱885,635,231</b>

<b>Parent Company</b>				
<b>December 31, 2013</b>				
	<b>Carrying Amount</b>	<b>Fair Value of Collateral</b>	<b>Financial Effect of Collateral</b>	<b>Maximum Exposure to Credit Risk</b>
Interbank loans receivable	₱3,099,000,000	₱3,102,512,904	₱3,099,000,000	₱-
Loans and receivables:				
Receivables from customers:				
Consumption	751,602,051	719,626,159	719,626,159	31,975,892
Commercial	669,826,015	1,928,975,983	669,826,015	-
Real estate	2,844,331,284	5,233,217,933	2,844,331,284	-
Other receivables:				
Sales contract receivable	10,908,602	26,168,055	10,908,602	-
	<b>₱7,375,667,952</b>	<b>₱11,010,501,034</b>	<b>₱7,343,692,060</b>	<b>₱31,975,892</b>

<b>Consolidated</b>				
<b>December 31, 2012</b>				
	<b>Carrying Amount</b>	<b>Fair Value of Collateral</b>	<b>Financial Effect of Collateral</b>	<b>Maximum Exposure to Credit Risk</b>
Interbank loans receivable	₱100,000,000	₱104,935,736	₱100,000,000	₱-
Loans and receivables:				
Receivables from customers:				
Consumption	1,515,527,674	1,759,528,119	1,091,860,132	423,667,542
Commercial	2,561,649,349	2,612,330,031	2,418,265,151	143,384,198
Real estate	2,857,377,391	3,290,066,072	2,857,377,391	-
Other receivables:				
Sales contract receivable	62,493,943	85,460,835	62,493,943	-
	<b>₱7,097,048,357</b>	<b>₱7,852,320,793</b>	<b>₱6,529,996,617</b>	<b>₱567,051,740</b>

Parent Company				
December 31, 2012				
	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral	Maximum Exposure to Credit Risk
Interbank loans receivable	₱100,000,000	₱104,935,736	₱100,000,000	₱–
Loans and receivables:				
Receivables from customers:				
Consumption	1,007,282,720	1,674,950,707	1,007,282,720	–
Commercial	2,059,728,146	2,253,793,026	2,059,728,146	–
Real estate	2,834,945,179	3,255,617,467	2,834,945,179	–
Other receivables:				
Sales contract receivable	14,561,472	24,698,351	14,561,472	–
	₱6,016,517,517	₱7,313,995,287	₱6,016,517,517	₱–

#### *Collateral and other credit enhancement*

The aggregate fair market value of collateral against the maximum exposure on the Group's financial assets amounted to ₱11.46 billion and ₱7.85 billion as of December 31, 2013 and 2012, respectively.

The aggregate fair market value of collateral against the maximum exposure on the Parent Company's financial assets amounted to ₱11.01 billion and ₱7.31 billion as of December 31, 2013 and 2012, respectively.

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

The main types of collateral obtained are as follows:

- Mortgages over real estate and vehicle for consumer lending
- Chattels over inventory and receivable for commercial lending
- Government securities for interbank lending

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

#### *Concentration of credit*

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

The tables below show the distribution of maximum exposure to credit risk by industry sector of the Group before taking into account collateral held and other credit enhancements (in millions):

	<b>Consolidated</b>		
	<b>2013</b>		
	<b>Loans and Receivables*</b>	<b>Investment Securities**</b>	<b>Total</b>
Financial intermediaries	₱17,441	₱1,779	₱19,220
Real estate, renting and business services	4,982	75	5,057
Wholesale and retail	2,825	–	2,825
Electricity, gas and water	1,749	–	1,749
Transport, storage and communication	1,302	–	1,302
Construction	936	–	936
Agriculture, hunting and forestry	906	–	906
Manufacturing	573	–	573
Government institutions	–	5,126	5,126
Others	5,320	24	5,344
	<b>36,034</b>	<b>7,004</b>	<b>43,038</b>
Less allowance for credit losses	518	–	518
	<b>₱35,516</b>	<b>₱7,004</b>	<b>₱42,520</b>

\* All financial assets other than investment securities and cash on hand

\*\* Financial assets at FVPL, AFS and HTM investments

	<b>Parent Company</b>		
	<b>2013</b>		
	<b>Loans and Receivables*</b>	<b>Investment Securities**</b>	<b>Total</b>
Financial intermediaries	₱16,170	₱1,808	₱17,978
Real estate, renting and business services	4,915	75	4,990
Wholesale and retail	2,581	–	2,581
Electricity, gas and water	1,749	–	1,749
Transport, storage and communication	1,302	–	1,302
Construction	936	–	936
Agriculture, hunting and forestry	662	–	662
Manufacturing	573	–	573
Government institutions	–	5,126	5,126
Others	4,774	24	4,798
	<b>33,662</b>	<b>7,033</b>	<b>40,695</b>
Less allowance for credit losses	460	–	460
	<b>₱33,202</b>	<b>₱7,033</b>	<b>₱40,235</b>

\* All financial assets other than investment securities and cash on hand

\*\* Financial assets at FVPL, AFS and HTM investments

	Consolidated		
	2012		
	Loans and Receivables*	Investment Securities**	Total
Financial intermediaries	₱10,601	₱1,214	₱11,815
Real estate, renting and business services	4,670	–	4,670
Wholesale and retail	3,418	–	3,418
Agriculture, hunting and forestry	2,572	–	2,572
Electricity, gas and water	1,747	–	1,747
Construction	621	–	621
Manufacturing	601	–	601
Transport, storage and communication	562	–	562
Government institutions	–	8,364	8,364
Others	4,419	16	4,435
	29,211	9,594	38,805
Less allowance for credit losses	521	–	521
	₱28,690	₱9,594	₱38,284

\* All financial assets other than investment securities and cash on hand

\*\* Derivative assets, financial assets at FVPL and AFS investments

	Parent Company		
	2012		
	Loans and Receivables*	Investment Securities**	Total
Financial intermediaries	₱9,667	₱1,212	₱10,879
Real estate, renting and business services	4,598	–	4,598
Wholesale and retail	3,039	–	3,039
Agriculture, hunting and forestry	2,256	–	2,256
Electricity, gas and water	1,747	–	1,747
Construction	621	–	621
Manufacturing	601	–	601
Transport, storage and communication	562	–	562
Government institutions	–	8,364	8,364
Others	4,215	16	4,231
	27,306	9,592	36,898
Less allowance for credit losses	521	–	521
	₱26,785	₱9,592	₱36,377

\* All financial assets other than investment securities and cash on hand

\*\* Derivative assets, financial assets at FVPL and AFS investments

### Credit quality

#### Parent Company

For receivables from customers, the Parent Company's internal credit rating risk (ICRR) system was approved in 2007 and improved in 2011 in accordance with BSP requirement, to cover corporate credit exposures, which is defined by BSP as exposures to companies with assets of more than ₱15.00 million.

The Parent Company's ICRR is as follows:

<b>Grades</b>	<b>Categories</b>	<b>Description</b>
<b>High grade</b>		
<i>Risk rating 1</i>	Excellent	Lowest probability of default; exceptionally strong capacity for financial commitments; highly unlikely to be adversely affected by foreseeable events.
<i>Risk rating 2</i>	Super Prime	Very low probability of default; very strong capacity for payment of financial commitments; less vulnerable to foreseeable events.
<i>Risk rating 3</i>	Prime	Low probability of default; strong capacity for payment of financial commitments; may be more vulnerable to adverse business/economic conditions.
<i>Risk rating 4</i>	Very Good	Moderately low probability of default; more than adequate capacity for payment of financial commitments; but adverse business/economic conditions are more likely to impair this capacity.
<i>Risk rating 5</i>	Good	More pronounced probability of default; business or financial flexibility exists which supports the servicing of financial commitments; vulnerable to adverse business/economic changes.
<b>Standard</b>		
<i>Risk rating 6</i>	Satisfactory	Material probability of default is present, but a margin of safety remains; financial commitments are currently being met although the capacity for continued payment is vulnerable to deterioration in the business/economic condition.
<i>Risk rating 7</i>	Average	Greater probability of default which is reflected in the volatility of earnings and overall performance; repayment source is presently adequate; however, prolonged unfavorable economic period would create deterioration beyond acceptable levels.
<i>Risk rating 8</i>	Fair	Sufficiently pronounced probability of default, although borrowers should still be able to withstand normal business cycles; any prolonged unfavorable economic/market conditions would create an immediate deterioration of cash flow beyond acceptable levels.

<b>Grades</b>	<b>Categories</b>	<b>Description</b>
Sub-standard grade		
<i>Risk rating 9</i>	Marginal	Elevated level of probability of default, with limited margin; Repayment source is adequate to marginal.
<i>Risk rating 10</i>	Watchlist	Unfavorable industry or company specific risk factors represent a concern, financial strength may be marginal; will find it difficult to cope with significant downturn.
<i>Risk rating 11</i>	Special mention	Loans have potential weaknesses that deserve close attention; borrower has reached a point where there is a real risk that the borrower's ability to pay the interest and repay the principal timely could be jeopardize due to evidence of weakness in the borrower's financial condition.
<i>Risk rating 12</i>	Substandard	Substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics; with well-defined weakness(es) that jeopardize their liquidation. e.g. negative cash flow, case of fraud.
Past due and impaired		
<i>Risk rating 13</i>	Doubtful	Weaknesses similar to "Substandard", but with added characteristics that make liquidation highly improbable.
<i>Risk rating 14</i>	Loss	Uncollectible or worthless.

The Parent Company's ICRR system intends to provide a structure to define the credit portfolio, and consists of an initial rating for the borrower risk adjusted for the facility risk. Inputs include an assessment of management, credit experience, financial condition, industry outlook, documentation, security and term.

The following tables show the credit quality per class of loans and receivables, gross of allowance for credit losses and unearned interest discount of the Parent Company (in millions):

	Parent Company						
	2013						
	Neither past due nor impaired				Past due but not		Total
High Grade	Standard Grade	Substandard Grade	Unrated	Individually Impaired	Individually Impaired		
Receivables from customers:							
Commercial	₱5,090	₱3,021	₱2,235	₱340	₱4	₱504	₱11,194
Real estate	–	2,759	–	–	115	–	2,874
Consumption	–	2,282	–	–	295	–	2,577
Domestic bills purchased	–	717	–	–	–	–	717
Other receivables:							
Unquoted debt securities	–	555	–	–	–	–	555
Accrued interest receivable	–	213	–	–	5	–	218
Accounts receivable	–	57	–	–	22	–	79
Sales contract receivable	–	4	–	–	10	–	14
	<b>₱5,090</b>	<b>₱9,608</b>	<b>₱2,235</b>	<b>₱340</b>	<b>₱451</b>	<b>₱504</b>	<b>₱18,228</b>

Parent Company							
2012							
Neither past due nor impaired				Past due but not			Total
High Grade	Standard Grade	Substandard Grade	Unrated	Individually Impaired	Individually Impaired		
Receivables from customers:							
Commercial	₱6,258	₱3,599	₱617	₱474	₱14	₱381	₱11,343
Real estate	–	2,745	–	–	100	–	2,845
Consumption	–	1,842	–	–	276	–	2,118
Domestic bills purchased	–	495	–	–	–	–	495
Other receivables:							
Unquoted debt securities	–	555	–	–	–	–	555
Accrued interest receivable	–	275	–	–	8	14	297
Accounts receivable	–	139	–	–	27	–	166
Sales contract receivable	–	12	–	–	4	–	16
	₱6,258	₱9,662	₱617	₱474	₱429	₱395	₱17,835

### External ratings

In ensuring a quality investment portfolio, the Parent Company monitors credit risk from investments using credit ratings based on Moody's Investors Service (Moody's rating).

Credit quality of due from BSP and other banks and interbank loans receivable are based on available accredited international and local credit raters using Fitch as standard of rating.

The Parent Company assigns the following credit quality groupings based on Fitch Ratings and Moody's rating as follows:

Credit Quality	Fitch	Moody's
High Grade	AAA to A-	Aaa to A3
Standard Grade	BBB+ to BB-	Baa1 to Ba3
Substandard Grade	B+ to C-	B1 to Ca
Past due and impaired	D	C

The following tables show the credit quality per class of financial assets other than receivables from customers and other receivables of the Parent Company (in millions):

Parent Company							
2013							
Neither past due nor impaired				Past due but not			Total
High Grade	Standard Grade	Substandard Grade	Unrated	Individually Impaired	Individually Impaired		
Financial assets at FVPL							
AFS investments:	₱–	₱1,095	₱–	₱–	₱–	₱–	₱1,095
Government securities	–	4,540	–	–	–	–	4,540
Private bonds	–	1,270	–	–	–	–	1,270
Unquoted equity securities	–	–	–	53	–	–	53
HTM investment	–	–	–	75	–	–	75
Loans and receivables:							
Due from BSP	–	10,288	–	–	–	–	10,288
Due from other banks	60	1,955	–	–	–	–	2,015
Interbank loans receivable	–	3,099	–	–	–	–	3,099
Other assets:							
Refundable deposits	–	–	–	32	–	–	32
	₱60	₱22,247	₱–	₱160	₱–	₱–	₱22,467

Parent Company							
2012							
Neither past due nor impaired							
	High Grade	Standard Grade	Substandard Grade	Unrated	Past due but not Individually Impaired	Individually Impaired	Total
Derivative assets	P-	P109	P-	P-	P-	P-	P109
Financial assets at FVPL	-	2,186	-	-	-	-	2,186
AFS investments:							
Government securities	-	6,178	-	-	-	-	6,178
Private bonds	-	1,103	-	-	-	-	1,103
Unquoted equity securities	-	-	-	16	-	-	16
Loans and receivables:							
Due from BSP	-	7,350	-	-	-	-	7,350
Due from other banks	60	1,932	-	-	-	-	1,992
Interbank loans receivable	-	100	-	-	-	-	100
Other assets:							
Refundable deposits	-	-	-	22	-	-	22
	P60	P18,958	P-	P38	P-	P-	P19,056

As of December 31, 2013 and 2012, the Parent Company's commitments amounting to P2.52 billion and P1.63 billion, respectively, have a risk rating class of Standard Grade.

### LSB

For receivables from customers, credit quality is being evaluated by LSB using the following classifications:

#### *Neither past due nor individually impaired*

LSB classifies those accounts under current status having the following loan grades:

- **High grade**  
This pertains to accounts with a very low probability of default as demonstrated by the borrower's long history of stability, profitability and diversity. The borrower has the ability to raise substantial amounts of funds through the public markets. The borrower has a strong debt service record and a moderate use of leverage.
- **Standard grade**  
The borrower has no history of default. The borrower has sufficient liquidity to fully service its debt over the medium term. The borrower has adequate capital to readily absorb any potential losses from its operations and any reasonably foreseeable contingencies. The borrower reported profitable operations for at least the past 3 years.
- **Substandard grade**  
The borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues.
- **Unrated grade**  
Other credit assets which cannot be classified as High, Standard or Substandard are tagged as Unrated.

#### *Past due but not individually impaired*

These are accounts which are classified as delinquent but LSB assesses that there is no objective evidence that these accounts are impaired as of statement of financial position date.

#### *Individually impaired*

Accounts which show evidence of impairment as of statement of financial position date.

The following tables show credit quality per class of loans and receivables, gross of allowance for credit losses and unearned interest discount of LSB (in millions):

December 31, 2013							
Neither past due nor impaired					Past due but not Individually Impaired	Individually Impaired	Total
High Grade	Standard Grade	Substandard Grade	Unrated				
Receivables from customers:							
Commercial	₱-	₱72	₱-	₱-	₱64	₱353	₱489
Real estate	-	639	-	-	134	84	857
Consumption	-	4	-	-	-	13	17
Other receivables:							
Accrued interest receivable	-	-	-	-	-	18	18
Accounts receivable	-	17	-	-	-	5	22
Sales contract receivable	-	36	-	-	14	-	50
Finance lease receivable	-	-	8	-	-	-	8
	₱-	₱768	₱8	₱-	₱212	₱473	₱1,461

December 31, 2012							
Neither past due nor impaired					Past due but not Individually Impaired	Individually Impaired	Total
High Grade	Standard Grade	Substandard Grade	Unrated				
Receivables from customers:							
Commercial	₱14	₱4	₱8	₱53	₱8	₱228	₱315
Real estate	100	59	29	22	3	338	551
Consumption	-	-	-	-	-	13	13
Other receivables:							
Accrued interest receivable	7	-	-	-	-	-	7
Accounts receivable	34	-	-	-	-	-	34
Sales contract receivable	48	-	-	-	-	-	48
Finance lease receivable	-	-	7	-	-	-	7
	₱203	₱63	₱44	₱75	₱11	₱579	₱975

The credit quality of LSB's financial assets at amortized cost and investment securities are all classified as high grade except for 'Refundable deposits' which is classified as unrated. LSB does not have financial assets (excluding loans and receivables) and investment securities which are either past due but not impaired or individually impaired as of December 31, 2013 and 2012, respectively.

*Aging analysis of past due but not impaired loans and receivables per class*

The tables below show the aging analysis of past due but not impaired loans and receivables per class of the Group (in millions):

Consolidated					
2013					
	Less than 30 days	30 to 60 days	61 to 90 days	91 days and above	Total
Receivables from customers:					
Commercial	₱18	₱30	₱4	₱16	₱68
Real estate	96	1	-	18	115
Consumption	232	113	15	69	429
Other receivables:					
Accrued interest receivable	1	-	1	3	5
Accounts receivable	-	1	4	17	22
Sales contract receivable	-	2	-	22	24
	₱347	₱147	₱24	₱145	₱663

Parent Company					
2013					
	Less than 30 days	30 to 60 days	61 to 90 days	91 days and above	Total
Receivables from customers:					
Commercial	₱–	₱–	₱–	₱4	₱4
Real estate	96	1	–	18	115
Consumption	219	9	5	62	295
Other receivables:					
Accrued interest receivable	1	–	1	3	5
Accounts receivable	–	1	4	17	22
Sales contract receivable	–	–	–	10	10
	<b>₱316</b>	<b>₱11</b>	<b>₱10</b>	<b>₱114</b>	<b>₱451</b>

Consolidated					
2012					
	Less than 30 days	30 to 60 days	61 to 90 days	91 days and above	Total
Receivables from customers:					
Commercial	₱4	₱2	₱1	₱18	₱25
Real estate	6	–	8	89	103
Consumption	23	19	34	199	275
Other receivables:					
Accrued interest receivable	–	–	1	6	7
Accounts receivable	3	2	2	20	27
Sales contract receivable	–	–	–	3	3
	<b>₱36</b>	<b>₱23</b>	<b>₱46</b>	<b>₱335</b>	<b>₱440</b>

Parent Company					
2012					
	Less than 30 days	30 to 60 days	61 to 90 days	91 days and above	Total
Receivables from customers:					
Commercial	₱3	₱–	₱–	₱11	₱14
Real estate	6	–	7	87	100
Consumption	24	19	34	199	276
Other receivables:					
Accrued interest receivable	–	–	1	7	8
Accounts receivable	2	1	2	22	27
Sales contract receivable	–	–	–	4	4
	<b>₱35</b>	<b>₱20</b>	<b>₱44</b>	<b>₱330</b>	<b>₱429</b>

### Liquidity Risk

Liquidity risk may be defined as the possibility of loss due to the Group's inability to meet its financial obligations when they become due. Liquidity risk is considered in the Group's assets and liabilities management. The Group seeks to lengthen liability maturities, diversify existing fund sources, and continuously develop new instruments that cater to different segments of the market.

The Parent Company's Assets and Liabilities Committee (ALCO) is composed of some members of the Senior Management including the Lending Groups and Treasury Group Heads. ALCO conducts weekly meetings. The Parent Company also has specialized units that help monitor market and regulatory developments pertinent to interest rates and liquidity position, as well as prepare cash position reports as needed to measure the liquidity and reserves position of the Parent Company.

The Parent Company also keeps credit lines with financial institutions, as well as a pool of liquid or highly marketable securities. Reserves management is another specialized function within the Bank, complying with BSP reserve requirements, which may be a buffer against unforeseen liquidity drains.

The liquidity or maturity gap report is another tool for measuring liquidity risk. Although available contractual maturity dates are generally used for putting instruments into time bands, expected liquidation periods, often based on historical data, are used if contractual maturity dates are unavailable. The liquidity gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive liquidity gap is an estimate of the Group's net excess funds for the time band. A negative liquidity gap is an estimate of a future funding requirement of the Group. Although such gaps are a normal part of the business, a significant negative amount may bring significant liquidity risk. To help control liquidity risk arising from negative liquidity gaps, maximum cumulative outflow (MCO) targets are set for time bands up to one (1) year.

*Analysis of financial instruments by remaining maturities*

The table below summarized the maturity profile of the Group's financial instruments based on contractual undiscounted cash flows (in millions):

	Consolidated					Total
	2013					
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	
<b>Financial Assets</b>						
Cash and other cash items	₱1,143	₱-	₱-	₱-	₱-	₱1,143
Due from BSP	5,712	5,727	-	-	-	11,439
Due from other banks	1,381	755	-	-	-	2,136
Interbank loans receivable	-	3,008	-	90	33	3,131
Financial assets at FVPL	-	1,095	-	-	-	1,095
AFS investments	-	175	369	1,745	9,510	11,799
HTM investment	-	1	3	15	84	103
Loans and receivables	777	3,350	3,681	10,011	9,261	27,080
Other assets	-	-	32	-	1	33
	<b>₱9,013</b>	<b>₱14,111</b>	<b>₱4,085</b>	<b>₱11,861</b>	<b>₱18,889</b>	<b>₱57,959</b>
<b>Financial Liabilities</b>						
Deposit liabilities	₱31,448	₱ 3,886	₱1,186	₱2,587	₱-	₱39,107
Manager's checks	237	-	-	-	-	237
Redeemable preferred shares	2	-	-	-	-	2
Accrued expenses and other liabilities	1,350	55	-	-	-	1,405
	<b>33,037</b>	<b>3,941</b>	<b>1,186</b>	<b>2,587</b>	<b>-</b>	<b>40,751</b>
Commitments	2,520	-	-	-	-	2,520
	<b>₱35,557</b>	<b>₱3,941</b>	<b>₱1,186</b>	<b>₱2,587</b>	<b>₱-</b>	<b>₱43,271</b>

	Parent Company					Total
	2013					
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	
<b>Financial Assets</b>						
Cash and other cash items	₱1,109	₱-	₱-	₱-	₱-	₱1,109
Due from BSP	5,574	4,714	-	-	-	10,288
Due from other banks	1,262	754	-	-	-	2,016
Interbank loans receivable	-	3,008	-	90	33	3,131
Financial assets at FVPL	-	1,095	-	-	-	1,095
AFS investments	-	175	369	1,745	9,510	11,799
HTM investment	-	1	3	15	84	103
Loans and receivables	228	3,171	3,356	9,061	9,209	25,025
Other assets	-	-	32	-	-	32
	<b>₱8,173</b>	<b>₱12,918</b>	<b>₱3,760</b>	<b>₱10,911</b>	<b>₱18,836</b>	<b>₱54,598</b>

Parent Company						
2013						
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	Total
<b>Financial Liabilities</b>						
Deposit liabilities	₱29,535	₱3,876	₱1,150	₱2,097	₱–	36,658
Manager's checks	237	–	–	–	–	237
Accrued expenses and other liabilities	1,327	55	–	–	–	1,382
	31,099	3,931	1,150	2,097	–	38,277
Commitments	2,520	–	–	–	–	2,520
	33,619	3,931	1,150	2,097	–	40,797
	(₱25,446)	₱8,987	₱2,610	₱8,814	₱18,836	₱13,801

Consolidated						
2012						
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	Total
<b>Financial Assets</b>						
Cash and other cash items	₱1,038	₱–	₱–	₱–	₱–	₱1,038
Due from BSP	8,107	–	–	–	–	8,107
Due from other banks	1,098	1,072	–	–	–	2,170
Interbank loans receivable	–	–	–	130	–	130
Financial assets at FVPL	–	2,186	–	–	–	2,186
Derivative assets	–	109	–	–	–	109
AFS investments	–	391	33	587	12,938	13,949
Loans and receivables	1,875	2,880	1,610	9,235	10,347	25,947
Other assets	1	–	21	–	3	25
	₱12,119	₱6,638	₱1,664	₱9,952	₱23,288	₱53,661
<b>Financial Liabilities</b>						
Deposit liabilities	₱28,792	₱2,347	₱909	₱2,310	₱–	₱34,358
Manager's checks	171	–	–	–	–	171
Redeemable preferred shares	31	–	–	–	–	31
Accrued expenses and other liabilities	1,165	88	–	–	–	1,253
	30,159	2,435	909	2,310	–	35,813
Commitments	1,626	–	–	–	–	1,626
	31,785	2,435	909	2,310	–	37,439
	(₱19,666)	₱4,203	₱755	₱7,642	₱23,288	₱16,222

Parent Company						
2012						
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	Total
<b>Financial Assets</b>						
Cash and other cash items	₱988	₱–	₱–	₱–	₱–	₱988
Due from BSP	7,350	–	–	–	–	7,350
Due from other banks	920	1,072	–	–	–	1,992
Interbank loans receivable	–	–	–	130	–	130
Financial assets at FVPL	–	2,186	–	–	–	2,186
Derivative assets	–	109	–	–	–	109
AFS investments	–	389	33	587	12,938	13,947
Loans and receivables	1,199	2,763	1,406	8,650	10,335	24,353
Other assets	6	–	22	–	–	28
	₱10,463	₱6,519	₱1,461	₱9,367	₱23,273	₱51,083
<b>Financial Liabilities</b>						
Deposit liabilities	₱28,641	₱561	₱819	₱2,310	₱–	₱32,331
Manager's checks	171	–	–	–	–	171
Accrued expenses and other liabilities	1,105	88	–	–	–	1,193
	29,917	649	819	2,310	–	33,695
Commitments	1,626	–	–	–	–	1,626
	31,543	649	819	2,310	–	35,321
	(₱21,080)	₱5,870	₱642	₱7,057	₱23,273	₱15,762

The table below summarizes the maturity profile of the Parent Company's derivative assets (cross-currency swaps (CCS) in 2012 based on estimated contractual undiscounted cash flows (in thousands):

Receive (Asset)*	₱409,060
Pay (Liability)**	(300,281)
	<u>₱108,779</u>

\*Gross carrying amount before offsetting

\*\*Gross carrying offset in accordance with offsetting criteria

The derivative assets matured on February 15, 2013.

### Market Risk

Market risk may be defined as the possibility of loss due to adverse movements in market factors such as rates and prices. Market risk is present in both trading and non-trading activities. These are the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. The risk arises from market-making, dealing and position-taking in quoted debt securities and foreign exchange.

The Parent Company observes market risk limits, which are approved by the BOD and reviewed at least annually. Limits are set in such a way as to ensure that risks taken are based on the Parent Company's existing capital adequacy framework, and corresponding monitoring reports are prepared regularly by an independent risk management unit.

When limits are breached, approval is sought from successive levels of authority depending on the amount of the excess. Limit breaches are periodically presented to the BOD.

Value-at-Risk (VaR) is computed to estimate potential losses arising from market movements. The Parent Company calculates and monitors VaR and profit or loss on a daily basis.

#### *VaR objectives and methodology*

VaR is used by the Parent Company to measure market risk exposure from its trading and investment activities. VaR is an estimate of the maximum decline in value on a given position over a specified holding period in a normal market environment, with a given probability of occurrence. The Parent Company uses the historical simulation method in estimating VaR. The historical simulation method is a non-parametric approach to VaR calculation, in which asset returns are not subject to any functional distribution assumption. VaR is estimated directly from historical data without deriving parameters or making assumptions about the entire data distribution.

The historical data used by the Parent Company covers the most recent 260 business days (approximately 1 year). The Parent Company updates its dataset on a daily basis. Per the Parent Company policy, VaR is based on a 1-day holding period and a confidence level of 99.50%.

#### *VaR methodology limitations and assumptions*

Discussed below are the limitations and assumptions applied by the Parent Company on its VaR methodology:

- VaR is a statistical estimate; thus, it does not give the precise amount of loss the Parent Company may incur in the future;
- VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a Parent Company's exposure to market risk;

- c. Since VaR is computed from end-of-day positions and market factors, VaR does not capture intraday market risk.
- d. VaR systems depend on historical data. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Therefore, market shifts (i.e., an unexpected collapse of the market) will not be captured and may inflict losses larger than VaR; and
- e. The limitation relating to the pattern of historical returns being indicative of future returns is addressed by supplementing VaR with daily stress testing reported to the RMC, ALCO and the concerned risk-takers.

VaR back testing is the process by which financial institutions periodically compare ex-post profit or loss with the ex-ante VaR figures to gauge the robustness of the VaR model. The Parent Company performs quarterly back testing.

The Parent Company's VaR figures are as follows (in millions):

	2013			
	Average Daily	Highest	Lowest	December 31
Local interest rates	₱38.39	₱53.02	₱13.73	₱36.30
Foreign interest rate	1.77	3.08	1.31	2.88
	2012			
	Average Daily	Highest	Lowest	December 31
Local interest rates	₱25.32	₱82.89	₱0.00	₱31.15
Foreign interest rate	3.51	16.40	0.00	1.59

#### *Interest rate risk*

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 sensitivity analysis below shows the impact of movement in interest rates on AFS investments of the Bank as of December 31, 2013 (in millions).

	Net Carrying Value	100 bps parallel shift in yield curve
<b>December 31, 2013</b>		
Peso Denominated AFS	₱3,206.79	(₱376.59)
Dollar Denominated AFS (in PHP)	2,557.73	(300.98)
		100 bps parallel shift in yield curve
<b>December 31, 2012</b>		
Peso Denominated AFS	₱4,890.27	(₱497.66)
Dollar Denominated AFS (in PHP)	2,144.97	(244.07)

The Parent Company's ALCO surveys the interest rate environment, adjusts the interest rates for the Parent Company's loans and deposits, assesses investment opportunities and reviews the structure of assets and liabilities. The Parent Company uses Earnings-at-Risk (EaR) as a tool for measuring and managing interest rate risk in the banking book.

### *Earnings-at-Risk objectives and methodology*

EaR is a statistical measure of the likely impact of changes in interest rates to the Bank's net interest income (NII). To do this, repricing gaps (difference between interest rate-sensitive assets and liabilities) are classified according to time to repricing and multiplied with applicable historical interest rate volatility, although available contractual repricing dates are generally used for putting instruments into time bands, contractual maturity dates (e.g., for fixed rate instruments) or expected liquidation periods often based on historical data are used alternatively. The repricing gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive repricing gap implies that the Parent Company's NII could decline if interest rates decrease upon repricing. A negative repricing gap implies that the Parent Company's NII could decline if interest rates increase upon repricing. Although such gaps are a normal part of the business, a significant change may bring significant interest rate risk. To help control interest rate risk arising from repricing gaps, maximum repricing gap and EaR/NII targets are set for time bands up to one year. EaR is prepared and reported to the RMC quarterly.

The Parent Company's EaR figures are as follows (in PHP millions):

	2013			
	Average	Highest	Lowest	December 31
Instruments sensitive to local interest rates	<b>₱20.49</b>	<b>₱44.27</b>	<b>₱3.40</b>	<b>₱16.56</b>
Instruments sensitive to foreign interest rates	<b>0.02</b>	<b>0.04</b>	<b>0.01</b>	<b>0.04</b>
	2012			
	Average	Highest	Lowest	December 31
Instruments sensitive to local interest rates	₱53.95	₱75.98	₱37.42	₱37.42
Instruments sensitive to foreign interest rates	0.13	0.15	0.11	0.11

### *Foreign currency risk*

Foreign 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 positions by currency. In accordance with the Parent Company's policy, positions are monitored on a daily basis and are used to ensure positions are maintained within established limits.

December 31, 2013		Statement of Income	OCI
+10% USD appreciation	USD	<b>₱26,037,177</b>	<b>(₱36,739,536)</b>
	Other Foreign Currencies*	<b>1,911,036</b>	–
-10% USD depreciation	USD	<b>(26,037,177)</b>	<b>36,739,536</b>
	Other Foreign Currencies*	<b>(1,911,036)</b>	–
December 31, 2012		Statement of Income	OCI
+10% USD appreciation	USD	(₱20,274,585)	₱708,830
	Other Foreign Currencies*	22,147,403	–
-10% USD depreciation	USD	20,274,585	(708,830)
	Other Foreign Currencies*	(22,147,403)	–

\*significant positions held in EUR and AUD

---

## 5. Fair Value Measurement

The methods and assumptions used by the Group in estimating the Group's assets and liabilities are:

*Cash and other cash items, due from BSP, due from other banks, interbank loans receivable, accounts receivable and accrued interest receivable*

Carrying value approximates fair value given the short-term nature of these financial assets and insignificant risk of changes in value.

*Trading and investment securities*

Fair values of debt securities (financial assets at FVPL, AFS and HTM investments) and equity investments are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. For equity investments that are not quoted, the investments are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

*Derivative financial instruments*

Fair values are estimated based on quoted market prices, prices provided by independent parties or prices using acceptable valuation models. The models utilize published underlying rates and are implemented through validated calculation engines.

*Receivables from customers*

Fair values are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of receivables at current market rates. Where the instruments reprice on a short-term basis or have a relatively short maturity, the carrying amounts approximate fair values.

*Investment properties*

Fair value of investment properties are based on market data (or direct sales comparison) approach. This approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject property.

The fair values of the Group's investment properties have been determined by appraisers, including independent external appraisers, in the basis of the recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time of the valuations are made.

The Group has determined that the highest and best use of the property used for the land and building is its current use.

*Time deposits*

Fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

*Financial liabilities at amortized cost except time deposits*

Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

The following tables show the Group's assets and liabilities carried at fair value and those whose fair value are required to be disclosed, analyzed among those whose fair value is based on:

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

	Consolidated				
	2013				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets Measured at Fair Value</b>					
<b>Financial Assets</b>					
Financial assets at FVPL	₱1,094,982,315	₱1,094,982,315	₱-	₱-	₱1,094,982,315
AFS investments:					
Government securities	4,540,129,118	4,540,129,118	-	-	4,540,129,118
Private bonds	1,270,151,874	1,270,151,874	-	-	1,270,151,874
Quoted equity securities	272,500	272,500	-	-	272,500
	<b>₱6,905,535,807</b>	<b>₱6,905,535,807</b>	<b>₱-</b>	<b>₱-</b>	<b>₱6,905,535,807</b>
<b>Assets for which Fair Values are Disclosed</b>					
<b>Financial Assets</b>					
HTM investment	₱75,000,000	₱74,856,968	₱-	₱-	₱74,856,968
Loans and receivables:					
Receivables from customers:					
Commercial	11,308,655,720	-	-	11,484,679,723	11,484,484,708
Real estate	2,840,869,479	-	-	3,051,214,325	3,051,214,325
Consumption	3,330,502,052	-	-	5,122,764,207	5,122,764,207
Other receivables:					
Unquoted debt securities	555,000,000	-	-	561,386,784	561,386,784
Sales contract receivable	59,707,329	-	-	73,870,939	73,870,939
<b>Non-Financial Assets</b>					
Investment properties	239,616,938	-	-	381,015,660	381,015,660
	<b>₱18,409,351,518</b>	<b>₱74,856,968</b>	<b>₱-</b>	<b>₱20,674,931,638</b>	<b>₱20,749,593,591</b>
<b>Liabilities for which Fair Values are Disclosed</b>					
<b>Financial liabilities</b>					
Financial liabilities at amortized cost:					
Deposit liabilities:					
Time deposits	₱7,327,070,074	₱-	₱-	₱7,345,102,076	₱7,345,102,076

	Parent Company				
	2013				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets Measured at Fair Value</b>					
<b>Financial Assets</b>					
Financial assets at FVPL	₱1,094,982,315	₱1,094,982,315	₱-	₱-	₱1,094,982,315
AFS investments:					
Government securities	4,540,129,118	4,540,129,118	-	-	4,540,129,118
Private bonds	1,270,151,874	1,270,151,874	-	-	1,270,151,874
Quoted equity securities	272,500	272,500	-	-	272,500
	<b>₱6,905,535,807</b>	<b>₱6,905,535,807</b>	<b>₱-</b>	<b>₱-</b>	<b>₱6,905,535,807</b>
<b>Assets for which Fair Values are Disclosed</b>					
<b>Financial Assets</b>					
HTM investment	₱75,000,000	₱74,856,968	₱-	₱-	₱74,856,968
Loans and receivables:					
Receivables from customers:					
Commercial	11,109,367,996	-	-	11,362,654,132	11,362,654,132
Real estate	2,832,740,814	-	-	3,045,773,563	3,045,773,563
Consumption	2,443,780,203	-	-	3,975,989,213	3,975,989,213

(Forward)

<b>Parent Company</b>					
<b>2013</b>					
	<b>Carrying Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
Other receivables:					
Unquoted debt securities	P555,000,000	P-	P-	P561,386,784	P561,386,784
Sales contract receivable	10,908,601	-	-	17,453,426	17,453,426
<b>Non-Financial Assets</b>					
Investment properties	98,695,983	-	-	215,232,859	215,232,859
	<b>P17,125,493,597</b>	<b>P74,856,968</b>	<b>P-</b>	<b>P19,178,489,977</b>	<b>P19,253,346,945</b>
<b>Liabilities for which Fair Values are Disclosed</b>					
<b>Financial liabilities</b>					
Financial liabilities at amortized cost:					
Deposit liabilities:					
Time deposits	P6,869,679,656	P-	P-	P6,895,465,199	P6,895,465,199
<b>Consolidated</b>					
<b>2012</b>					
	<b>Carrying Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
<b>Assets Measured at Fair Value</b>					
<b>Financial Assets</b>					
Derivative assets	P109,088,614	P-	P109,088,614	P-	P109,088,614
Financial assets at FVPL	2,185,673,337	2,185,673,337	-	-	2,185,673,337
<b>AFS investments:</b>					
Government securities	6,177,830,090	6,177,830,090	-	-	6,177,830,090
Private bonds	1,102,645,686	1,102,645,686	-	-	1,102,645,686
Quoted equity securities	2,586,513	2,586,513	-	-	2,586,513
	<b>P9,577,824,240</b>	<b>P9,468,735,626</b>	<b>P109,088,614</b>	<b>P-</b>	<b>P9,577,824,240</b>
<b>Assets for which Fair Values are Disclosed</b>					
<b>Financial Assets</b>					
Loans and receivables:					
Receivables from customers:					
Commercial	P11,295,250,979	P-	P-	P12,152,680,060	P12,152,680,060
Real estate	3,360,282,603	-	-	4,129,188,248	4,129,188,248
Consumption	2,032,060,511	-	-	2,654,643,274	2,654,643,274
Other receivables:					
Unquoted debt securities	555,000,000	-	-	565,369,460	565,369,460
Sales contract receivable	62,645,303	-	-	67,772,473	67,412,473
<b>Non-Financial Assets</b>					
Investment properties	236,068,078	-	-	323,060,611	323,060,611
	<b>P17,541,307,474</b>	<b>P-</b>	<b>P-</b>	<b>P19,892,714,126</b>	<b>P19,892,354,126</b>
<b>Liabilities for which Fair Values are Disclosed</b>					
<b>Financial Liabilities</b>					
Financial liabilities at amortized cost:					
Deposit liabilities:					
Time deposits	P6,403,683,926	P-	P-	P6,448,768,378	P6,448,768,378

Parent Company					
2012					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets Measured at Fair Value</b>					
<b>Financial Assets</b>					
Derivative assets	₱109,088,614	₱-	₱109,088,614	₱-	₱109,088,614
Financial assets at FVPL	2,185,673,337	2,185,673,337	-	-	2,185,673,337
<b>AFS investments:</b>					
Government securities	6,177,830,090	6,177,830,090	-	-	6,177,830,090
Private bonds	1,102,645,686	1,102,645,686	-	-	1,102,645,686
Quoted equity securities	272,500	272,500	-	-	272,500
	<b>₱9,575,510,227</b>	<b>₱9,466,421,613</b>	<b>₱109,088,614</b>	<b>₱-</b>	<b>₱9,575,510,227</b>
<b>Assets for which Fair Values are Disclosed</b>					
<b>Financial Assets</b>					
<b>Loans and receivables:</b>					
<b>Receivables from customers:</b>					
Commercial	₱10,981,333,459	₱-	₱-	₱11,838,762,540	₱11,838,762,540
Real estate	2,808,913,287	-	-	3,577,818,932	3,577,818,932
Consumption	2,018,822,813	-	-	2,641,405,576	2,641,405,576
<b>Other receivables:</b>					
Unquoted debt securities	555,000,000	-	-	565,369,460	565,369,460
Sales contract receivable	14,712,832	-	-	19,840,002	19,840,002
<b>Non-Financial Assets</b>					
Investment properties	64,033,816	-	-	151,026,349	151,026,349
	<b>₱16,442,816,207</b>	<b>₱-</b>	<b>₱-</b>	<b>₱18,794,222,859</b>	<b>₱18,794,222,859</b>
<b>Liabilities for which Fair Values are Disclosed</b>					
<b>Financial liabilities</b>					
<b>Financial liabilities at amortized cost:</b>					
<b>Deposit liabilities:</b>					
Time deposits	₱6,321,907,552	₱-	₱-	₱6,366,992,004	₱6,366,992,004

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

Description of significant unobservable inputs to valuation:

<b>Accounts</b>	<b>Valuation Technique</b>	<b>Significant Unobservable Inputs</b>
Loans and receivables	Discounted cash flow method	4% - 5% risk premium rate
Investment properties	Market data approach	Price per square meter, size, shape, location, time element and discount
Time deposits	Discounted cash flow method	0.25% - 3.00% risk premium rate

Significant increases (decreases) in price per square meter and size of investment properties would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in discount would result in a significantly lower (higher) fair value of the properties.

### *Significant Unobservable Inputs*

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 the 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.
Time element	An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time. In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Risk premium	The return in excess of the risk-free rate of return that an investment is expected to yield.

---

## 6. Interbank Loans Receivable

This account consists of placements by the Parent Company in:

	2013	2012
BSP	₱3,000,000,000	₱–
Local savings bank	99,000,000	100,000,000
	<b>₱3,099,000,000</b>	<b>₱100,000,000</b>

Placement in BSP has remaining maturity of one (1) month while placement in local savings bank has remaining maturity of four (4) to five (5) years.

In 2013 and 2012, interest rates on placements in BSP and other local savings bank range from 3.50% to 6.17% and from 5.69% to 6.17%, respectively.

---

## 7. Investment Securities

### Derivative Financial Instruments

The Parent Company entered into two (2) CCSs with a foreign bank to achieve an economic hedge against its exposure in foreign currency risk related to its foreign currency-denominated AFS government securities.

On February 15, 2013, the Parent Company received ₱395.57 million upon maturity of its CCSs resulting in a gain of ₱1.62 million in 2013. Notional values of the two CCSs amount to USD 5.00 million and USD 2.00 million, respectively.

### Financial Assets at FVPL

As of December 31, 2013 and 2012, this account consists of investment in government securities. The EIR on investment in government securities ranges from 2.47% to 5.75% in 2013 and 2012.

### AFS Investments

This account consists of investments in:

	<b>Consolidated</b>		<b>Parent Company</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Government securities	<b>₱4,540,129,118</b>	₱6,177,830,090	<b>₱4,540,129,118</b>	₱6,177,830,090
Private bonds	<b>1,270,151,874</b>	1,102,645,686	<b>1,270,151,874</b>	1,102,645,686
Quoted equity securities	<b>272,500</b>	2,586,513	<b>272,500</b>	272,500
Unquoted equity securities	<b>23,605,700</b>	16,105,700	<b>52,605,700</b>	16,105,700
	<b>₱5,834,159,192</b>	₱7,299,167,989	<b>₱5,863,159,192</b>	₱7,296,853,976

The EIR on AFS investments in peso-denominated government securities ranges from 2.35% to 8.14% and from 3.45% to 8.14% in 2013 and in 2012, respectively. The EIR on AFS investments in foreign currency-denominated government securities ranges from 2.75% to 4.72% in 2013 and from 2.84% to 4.77% in 2012. The EIR on AFS investments in peso-denominated private bonds ranges from 4.41% to 7.00% and from 5.63% to 7.00% in 2013 and 2012, respectively. The EIR on AFS investments in foreign currency-denominated private bonds ranges from 3.74% to 6.50% and from 4.01% to 6.44% in 2013 and 2012, respectively.

As of December 31, 2013 and 2012, the quoted equity securities of the Group consist of shares of stocks in private corporation, amounting to ₱0.27 million and 2.59 million, respectively.

Investments in unquoted equity securities include investment in shares of stock of Philippine Clearing House Corporation (PCHC). This investment is required to be held by the Parent Company as part of its operations. The Parent Company does not have any plans to sell these shares in the future. These securities are carried at cost due to the unpredictable nature of future cash flows from these securities and the lack of suitable valuation for arriving at a reliable fair value estimate.

For the years ended December 31, 2013 and 2012, dividend income presented under 'Miscellaneous income' of the Group amounted to ₱0.64 million and ₱0.96 million, respectively (see Note 22).

As of December 31, 2013, the Parent Company held 29,000 redeemable preferred shares of LSB amounting to ₱29.00 million (see Note 16).

Movements in net unrealized gains (losses) of Group and the Parent Company included in the carrying value of AFS investments follow:

	<b>2013</b>	<b>2012</b>
Balance at beginning of year	<b>₱72,040,625</b>	₱142,465,374
Changes in fair value recognized in OCI	<b>(338,531,012)</b>	370,229,191
Gains taken to profit or loss	<b>(631,949,288)</b>	(438,406,346)
	<b>(631,949,288)</b>	74,288,219
Tax effect (Note 23)	<b>1,138,852</b>	(2,247,594)
Balance at end of year	<b>(₱630,810,436)</b>	₱72,040,625

Interest income on investment securities of the Group and the Parent Company consists of:

	2013	2012
Derivative assets	₱5,571,375	₱20,854,179
Financial assets at FVPL	61,114,213	62,120,072
AFS investments	357,151,990	412,020,111
HTM investment	456,266	-
	<b>₱424,293,844</b>	<b>₱494,994,362</b>

Trading and securities gains - net of the Group and the Parent Company consist of:

	2013	2012
Net realized gains taken to profit or loss on AFS securities	₱365,458,901	₱438,406,346
Net realized gains taken to profit or loss on financial assets at FVPL	218,123,179	137,793,360
Unrealized mark-to-market gains on financial assets at FVPL	(170,474,874)	(12,501,080)
Balance at end of year	<b>₱413,107,206</b>	<b>₱563,698,626</b>

In 2013, LSB sold its AFS investments and recognized gain on sale amounting to ₱0.58 million.

#### HTM Investment

As of December 31, 2013, the Parent Company has an HTM investment in private debt security with interest rate of 5.00% payable quarterly and maturity date on February 15, 2021.

## 8. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Receivables from customers:				
Commercial	₱11,393,884,511	₱11,657,037,884	₱11,194,596,787	₱11,343,120,364
Real estate	2,883,406,449	3,396,626,126	2,873,570,444	2,845,256,810
Consumption	3,405,099,647	2,130,856,842	2,576,318,937	2,117,619,144
Domestic bills purchased	717,356,029	495,138,146	717,356,029	495,138,146
	<b>18,399,746,636</b>	17,679,658,998	<b>17,361,842,197</b>	16,801,134,464
Less: Unearned interest and discount	546,863	9,670,273	315,662	474,087
	<b>18,399,199,773</b>	17,669,988,725	<b>17,361,526,535</b>	16,800,660,377
Other receivables:				
Unquoted debt securities	555,000,000	555,000,000	555,000,000	555,000,000
Accrued interest receivable	215,137,360	304,137,766	217,806,094	297,163,147
Accounts receivable	87,631,689	199,855,017	78,907,100	165,626,433
Sales contract receivable	63,861,339	63,615,192	14,346,455	15,682,721
Lease receivables (Note 21)	7,502,619	7,228,003	-	-
	<b>929,133,007</b>	1,129,835,978	<b>866,059,649</b>	1,033,472,301
Less: Allowance for credit losses (Note 14)	518,051,487	520,580,484	459,879,147	520,580,484
	<b>₱18,810,281,293</b>	₱18,279,244,219	<b>₱17,767,707,037</b>	₱17,313,552,194

As of December 31, 2013 and 2012, the unquoted debt securities pertain to investments in private bonds with local companies.

Unquoted debt securities earn interest at annual fixed rates ranging from 5.67% to 8.88% in 2013 and 2012. Sales contract receivable earn interest at annual fixed rates ranging from 3.45% to 52.04% in 2013 and 2012.

Interest income on loans and receivables consists of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Receivables from customers:				
Commercial	<b>₱733,303,237</b>	₱617,186,555	<b>₱611,133,149</b>	₱617,186,555
Consumption	<b>370,865,955</b>	247,371,993	<b>240,611,024</b>	247,371,993
Real estate	<b>471,751,970</b>	387,519,795	<b>471,287,153</b>	387,519,795
Domestic bills purchased	<b>822,235</b>	983,346	<b>822,235</b>	983,346
Unquoted debt securities	<b>36,476,080</b>	48,543,639	<b>36,476,080</b>	48,543,639
Sales contract receivable	<b>5,846,594</b>	3,796,013	<b>3,762,155</b>	3,796,013
Lease receivables	<b>1,048,367</b>	-	-	-
	<b>₱1,620,114,438</b>	₱1,305,401,341	<b>₱1,364,091,796</b>	₱1,305,401,341

Of the total receivables from customers of the Parent Company as of December 31, 2013 and 2012, 24.21% and 25.48%, respectively, are subject to periodic interest repricing. The EIR of the remaining receivables from customers ranges from 2.24% to 60.95% in 2013 and from 2.24% to 65.00% in 2012.

#### BSP Reporting

As of December 31, 2013 and 2012, information relating to secured loans by collateral type and unsecured receivables from customers follows:

	Consolidated			
	2013		2012	
	Amount	%	Amount	%
Secured by:				
Real estate	<b>₱3,799,710,067</b>	<b>20.65</b>	₱3,667,171,616	20.74
Chattel	<b>873,499,823</b>	<b>4.75</b>	1,013,784,212	5.74
Deposit hold-outs	<b>594,537,622</b>	<b>3.23</b>	2,363,321,644	13.37
Others	<b>3,991,288,785</b>	<b>21.69</b>	2,957,998,098	16.73
	<b>9,259,036,297</b>	<b>50.32</b>	10,002,275,570	56.58
Unsecured	<b>9,140,710,339</b>	<b>49.68</b>	7,677,383,428	43.42
	<b>₱18,399,746,636</b>	<b>100.00</b>	₱17,679,658,998	100.00

	Parent Company			
	2013		2012	
	Amount	%	Amount	%
Secured by:				
Real estate	<b>₱3,659,171,699</b>	<b>21.08</b>	₱3,485,694,818	20.75
Chattel	<b>858,316,358</b>	<b>4.94</b>	981,652,249	5.84
Deposit hold-outs	<b>575,013,803</b>	<b>3.31</b>	2,350,329,947	13.99
Others	<b>3,991,288,785</b>	<b>22.99</b>	2,957,998,098	17.61
	<b>9,083,790,645</b>	<b>52.32</b>	9,775,675,112	58.19
Unsecured	<b>8,278,051,552</b>	<b>47.68</b>	7,024,985,265	41.81
	<b>₱17,361,842,197</b>	<b>100.00</b>	₱16,800,660,377	100.00

Others include deed of assignments of receivables and deed of suretyships.

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

	Consolidated				Parent Company			
	2013		2012		2013		2012	
	Amount	%	Amount	%	Amount	%	Amount	%
Real estate, renting and business services	<b>₱4,931</b>	<b>26.34</b>	₱4,620	26.15	<b>₱4,915</b>	<b>28.31</b>	₱4,598	27.37
Wholesale and retail trade	<b>2,825</b>	<b>15.09</b>	3,076	17.41	<b>2,581</b>	<b>14.87</b>	3,039	18.09
Loans to individuals for consumption purposes	<b>2,277</b>	<b>12.16</b>	2,004	11.34	<b>2,277</b>	<b>13.11</b>	2,004	11.93
Electricity, gas and water supply	<b>1,748</b>	<b>9.34</b>	1,747	9.88	<b>1,748</b>	<b>10.07</b>	1,747	10.40
Other community, social and personal activities	<b>1,975</b>	<b>12.28</b>	1,236	6.99	<b>1,442</b>	<b>8.31</b>	844	5.02
Transport, storage and communication	<b>1,302</b>	<b>6.95</b>	562	3.18	<b>1,302</b>	<b>7.50</b>	562	3.34
Construction	<b>936</b>	<b>5.00</b>	621	3.51	<b>936</b>	<b>5.39</b>	621	3.70
Agriculture, hunting and forestry	<b>907</b>	<b>4.84</b>	2,574	14.57	<b>662</b>	<b>3.81</b>	2,256	13.43
Financial intermediaries	<b>768</b>	<b>4.10</b>	224	1.27	<b>768</b>	<b>4.42</b>	224	1.33
Manufacturing	<b>573</b>	<b>3.06</b>	601	3.40	<b>573</b>	<b>3.30</b>	601	3.58
Health and social work	<b>119</b>	<b>0.63</b>	167	0.95	<b>119</b>	<b>0.69</b>	167	0.99
Public administration and defense; compulsory social security	—	—	100	0.57	—	—	100	0.60
Others	<b>39</b>	<b>0.21</b>	148	0.78	<b>39</b>	<b>0.22</b>	38	0.22
	<b>₱18,400</b>	<b>100.00</b>	₱17,680	100.00	<b>₱17,362</b>	<b>100.00</b>	₱16,801	100.00

Others relate to mining and quarrying, hotels and restaurants and education.

The BSP considers that concentration risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.00% of the total loan portfolio except for thrift banks.

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

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three (3) or more installments are in arrears. In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10.00% of the total receivable balance. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

The Group classifies its loans and receivables as NPL in compliance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Loans and receivables are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations and future payments appear assured.

Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs. Restructured receivables of the Parent Company as of December 31, 2013 and 2012 amounted to ₱273.36 million and ₱111.80 million, respectively.

As of December 31, 2013 and 2012, details of NPLs follow:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Secured	<b>₱267,307,604</b>	₱419,338,742	<b>₱223,168,897</b>	₱387,732,409
Unsecured	<b>610,970,166</b>	478,041,314	<b>298,374,167</b>	363,938,720
	<b>₱878,277,770</b>	₱897,380,056	<b>₱521,543,064</b>	₱751,671,129

BSP Circular No. 351 allows banks to exclude from non-performing 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 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 NPL ratio.

As of December 31, 2013 and 2012, NPLs of the Group and of the Parent Company as reported to the BSP follow:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Total NPLs	<b>₱878,277,770</b>	₱897,380,056	<b>₱521,543,064</b>	₱751,671,129
Deductions as required by the BSP	<b>517,674,265</b>	318,335,772	<b>271,325,124</b>	318,335,772
	<b>₱360,603,505</b>	₱579,044,284	<b>₱250,217,940</b>	₱433,335,357

## 9. Investment in a Subsidiary

On July 25, 2012, the Parent Company's BOD approved the acquisition of the 100.00% controlling interest (both common and preferred shares) in LSB. Further, it was resolved that the Parent Company would seek approval from the Monetary Board (MB) of the BSP for the acquisition and other incentives.

On August 15, 2012, the MB of the BSP issued its approval in principle of the Parent Company's request to acquire LSB and of all the incentives requested by the Parent Company subject to the submission of the necessary requirements.

Beginning August 27, 2012, the Parent Company executed a share purchase agreement (SPA) with the LSB stockholders and made the related partial settlements therewith. The stock and transfer books of LSB will be updated upon the issuance of the certificate authorizing registration from the BIR. As of December 26, 2012, the Parent Company and majority of LSB stockholders had signed on the SPA.

On September 22, 2012, a new set of BOD members for LSB was elected consisting mostly of the Parent Company's officers.

On December 26, 2012, the MB of the BSP approved the SPA covering the Parent Company's acquisition of the 100.00% common shares of LSB. The deeds of sale to implement the SPA were executed afterwards.

In addition to the approval of the acquisition, the MB of the BSP approved the following merger incentives:

1. Grant of several branch licenses to the Parent Company in restricted areas and waiver of corresponding ₱20.00 million special branch licensing fee for each restricted branch license, subject to the following conditions: (a) the establishment of the awarded branches in restricted areas shall be subject to compliance with all other applicable provisions on branch establishment prescribed under Section X151 of the Manual of Regulations for Banks (MORB); and (b) branches shall be opened within three (3) years from BSP final approval of the Parent Company's acquisition of LSB.
2. Waiver of (a) the monetary penalties aggregating ₱6.40 million as of November 30, 2012 for violation of laws assessed by BSP on LSB, except penalties accruing to other parties, e.g., Micro, Small and Medium Enterprises Development Council Fund. Such waiver shall not preclude BSP from pursuing watchlisting and imposition of non-monetary and administrative sanctions (e.g., fines, disqualifications, suspensions and/or removal from office) against the directors and officers of LSB in accordance with applicable banking laws and regulations, without prejudice to the filing of criminal cases against liable persons under Section 34, 35 and 36 of Republic Act No. 7653 (the New Central Bank Act); (b) the applicable restrictions/ceilings on transactions between the Parent Company and LSB, for a period of three months, with respect to the Parent Company's liquidity support to LSB (through deposits to and/or purchase of receivables from LSB).
3. Staggered booking, up to five (5) years from final BSP approval of the Parent Company's acquisition of LSB, of the ₱274.10 million required allowance for probable losses on LSB's risk assets. The periodic amortization shall be charged against current operations, in accordance with the regulatory accounting guidelines for deferred loss recognition under Appendix 56a (to Subsection X394.10) of the MORB. The unamortized losses shall be deducted from qualifying capital for purposes of capital adequacy ratio computation and from computation of LSB's unimpaired capital under Subsection X116.1 of the MORB.
4. Retention of the thrift branch license of LSB on its existing eleven (11) branches, for its operations as a wholly-owned subsidiary of the Parent Company to pursue microfinance and country-side banking.
5. Approval of the following interlocking positions:
  - a. concurrent assignment of the Parent Company's Head of Legal Services as Corporate Secretary of LSB;
  - b. secondment of the officers of the Parent Company to LSB to assume the position of President, Chief Operating Officer, Treasurer and Audit Head, subject to the condition that these officers shall (i) relinquish all their duties, responsibilities, and signing authorities in the Parent Company and (ii) receive compensation/salaries and other emoluments from LSB;
  - c. notation of the interlocking directorships and officership-directorships of the Parent Company.

Based on the foregoing events, the Parent Company acquired effective control and management of LSB as of December 26, 2012. Accordingly, in accordance with PFRS 3, *Business Combinations*, the Parent Company's date of acquisition of LSB is December 26, 2012. However, for convenience purposes, the Group used December 31, 2012 as the cut-off in determining the fair value of the net assets of LSB. Therefore, only the fair values of the identifiable assets and

liabilities of LSB as December 31, 2012 were consolidated and the profit and loss of LSB for the year ended December 31, 2012 were excluded from the Group's consolidated financial statements as of December 31, 2012.

The fair values of the identifiable assets and liabilities of LSB as at December 31, 2012 follow:

	Fair Value Recognized on Acquisition
<b>Assets</b>	
Cash and cash equivalents	₱360,157,091
Available-for-sale investment	2,314,013
Loans and receivables	965,692,025
Property and equipment	43,910,651
Investment property	175,029,262
Branch licenses	620,000,000
Other assets	11,974,787
	<u>2,179,077,829</u>
<b>Liabilities</b>	
Deposit liabilities	2,033,312,019
Redeemable preferred shares	30,700,000
Deferred tax liability	186,000,000
Accrued expenses and other liabilities	62,392,816
	<u>2,312,404,835</u>
<b>Total identifiable net liabilities at fair value</b>	<b>(₱133,327,006)</b>

The acquisition resulted in recognition of goodwill determined as follows:

Total acquisition cost	₱111,000,000
Fair value of net liabilities acquired	133,327,006
Goodwill	<u>₱244,327,006</u>

Cash flow on acquisition follows:

Cash and cash equivalents acquired from LSB	₱360,157,091
Cash paid	(111,000,000)
Net cash inflow	<u>₱249,157,091</u>

As of December 31, 2012, the Parent Company's investment in LSB consists of:

Acquisition cost	₱111,000,000
Additional capital infusion	620,000,000
Net cash outflow	<u>₱731,000,000</u>

On August 22, 2012, the BOD of the Parent Company approved the infusion of cash equity to bring LSB's capital adequacy ratio (CAR) to at least 10.00% amounting to ₱620.00 million. In December 2012, the Parent Company infused the ₱620.00 million to LSB.

There were no adjustments resulting from the final purchase price allocation from LSB.

## 10. Property and Equipment

The composition of and the movements in this account follow:

	Consolidated 2013					
	Land	Building	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
<b>Cost</b>						
Balance at beginning of year	₱6,184,400	₱45,755,143	₱94,604,103	₱279,775,876	₱491,339,013	₱917,658,535
Additions	–	852,997	17,017,322	59,497,708	111,369,384	188,737,411
Disposals	–	(849,140)	(10,060,543)	(14,631,234)	(3,576,087)	(29,117,004)
Reclassification	–	(785,219)	(649,264)	(804,467)	2,238,950	–
Balance at end of year	6,184,400	44,973,781	100,911,618	323,837,883	601,371,260	1,077,278,942
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	–	11,928,770	41,594,113	153,537,564	290,741,633	497,802,080
Depreciation and amortization	–	2,948,282	18,336,218	41,388,296	67,488,712	130,161,508
Disposals	–	–	(6,749,532)	(13,713,343)	(2,324,095)	(22,786,970)
Reclassification	–	(785,219)	(649,264)	(804,467)	2,238,950	–
Balance at end of year	–	14,091,833	52,531,535	180,408,050	358,145,200	605,176,618
<b>Net Book Value at the End of the Year</b>	<b>₱6,184,400</b>	<b>₱30,881,948</b>	<b>₱48,380,083</b>	<b>₱143,429,833</b>	<b>₱243,226,060</b>	<b>₱472,102,324</b>

	Parent Company 2013				
	Building	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
<b>Cost</b>					
Balance at beginning of year	₱39,946,381	₱91,768,932	₱261,928,236	₱480,104,335	₱873,747,884
Additions	–	15,135,739	57,964,534	108,526,978	181,627,251
Disposals	–	(8,862,359)	(14,631,234)	(3,576,087)	(27,069,680)
Balance at end of year	39,946,381	98,042,312	305,261,536	585,055,226	1,028,305,455
<b>Accumulated Depreciation and Amortization</b>					
Balance at beginning of year	11,928,770	41,594,113	153,537,564	290,741,633	497,802,080
Depreciation and amortization	1,597,855	17,017,713	38,088,784	62,423,319	119,127,671
Disposals	–	(6,727,323)	(13,713,343)	(2,136,763)	(22,577,429)
Balance at end of year	13,526,625	51,884,503	177,913,005	351,028,189	594,352,322
<b>Net Book Value at the End of the Year</b>	<b>₱26,419,756</b>	<b>₱46,157,809</b>	<b>₱127,348,531</b>	<b>₱234,027,037</b>	<b>₱433,953,133</b>

	Consolidated 2012					
	Land	Building	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
<b>Cost</b>						
Balance at beginning of year	₱–	₱39,946,381	₱78,356,713	₱215,635,551	₱403,988,983	₱737,927,628
Additions	–	–	20,381,650	46,292,685	76,293,053	142,967,388
Additions due to business combination (Note 9)	6,184,400	5,808,762	2,835,171	17,847,640	11,234,678	43,910,651
Disposals	–	–	(6,969,431)	–	(177,701)	(7,147,132)
Balance at end of year	6,184,400	45,755,143	94,604,103	279,775,876	491,339,013	917,658,535

(Forward)

	Consolidated					Total
	2012					
	Land	Building	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures and Equipment	
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	₱–	₱10,330,915	₱34,812,983	₱121,264,113	₱236,771,244	₱403,179,255
Depreciation and amortization	–	1,597,855	10,939,874	32,273,451	53,991,946	98,803,126
Disposals	–	–	(4,158,744)	–	(21,557)	(4,180,301)
Balance at end of year	–	11,928,770	41,594,113	153,537,564	290,741,633	497,802,080
<b>Net Book Value at the End of the Year</b>	<b>₱6,184,400</b>	<b>₱33,826,373</b>	<b>₱53,009,990</b>	<b>₱126,238,312</b>	<b>₱200,597,380</b>	<b>₱419,856,455</b>

	Parent Company					Total
	2012					
	Building	Transportation Equipment	Leasehold Improvements	Furniture, Fixtures and Equipment		
<b>Cost</b>						
Balance at beginning of year	₱39,946,381	₱78,356,713	₱215,635,551	₱403,988,983		₱737,927,628
Additions	–	20,381,650	46,292,685	76,293,053		142,967,388
Disposals	–	(6,969,431)	–	(177,701)		(7,147,132)
Balance at end of year	39,946,381	91,768,932	261,928,236	480,104,335		873,747,884
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	10,330,915	34,812,983	121,264,113	236,771,244		403,179,255
Depreciation and amortization	1,597,855	10,939,874	32,273,451	53,991,946		98,803,126
Disposals	–	(4,158,744)	–	(21,557)		(4,180,301)
Balance at end of year	11,928,770	41,594,113	153,537,564	290,741,633		497,802,080
<b>Net Book Value at the End of the Year</b>	<b>₱28,017,611</b>	<b>₱50,174,819</b>	<b>₱108,390,672</b>	<b>₱189,362,702</b>		<b>₱375,945,804</b>

Gain on sale of property and equipment included in 'Miscellaneous income' of the Group amounted to ₱0.13 million and ₱1.26 million in 2013 and 2012 for the Group, and ₱0.27 million and ₱1.26 million in 2013 and 2012, respectively, for the Parent Company (see Note 22).

The details of depreciation and amortization follow:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Property and equipment	<b>₱130,161,508</b>	₱98,803,126	<b>₱119,127,671</b>	₱98,803,126
Investment properties (Note 11)	<b>11,928,410</b>	1,762,535	<b>3,282,047</b>	1,762,535
Repossessed chattels (Note 13)	<b>19,231,157</b>	12,481,673	<b>19,220,922</b>	12,481,673
Software costs (Note 13)	<b>2,540,110</b>	3,352,570	<b>1,688,860</b>	3,352,570
	<b>₱163,861,185</b>	₱116,399,904	<b>₱143,319,500</b>	₱116,399,904

As of December 31, 2013 and 2012, the cost of fully depreciated items of property and equipment still in use by the Group amounted to ₱415.59 million and ₱355.20 million, respectively.

As of December 31, 2013 and 2012, the cost of fully depreciated items of property and equipment still in use by the Parent Company amounted to ₱385.69 million and ₱336.07 million, respectively.

## 11. Investment Properties

The movements in this account which consists of land and buildings follow:

	Consolidated		Parent Company	
	2013	2012	2013	2012
<b>Cost</b>				
Balance at beginning of year	<b>₱241,593,402</b>	₱59,994,657	<b>₱69,559,140</b>	₱59,994,657
Additions	<b>47,106,774</b>	18,001,705	<b>37,840,860</b>	18,001,705
Additions due to business combination (Note 9)	–	172,034,262	–	–
Disposals	<b>(38,645,100)</b>	(8,437,222)	–	(8,437,222)
Balance at end of year	<b>250,055,076</b>	241,593,402	<b>107,400,000</b>	69,559,140
<b>Accumulated Depreciation</b>				
Balance at beginning of year	<b>3,873,651</b>	2,873,212	<b>3,873,651</b>	2,873,212
Depreciation (Note 10)	<b>11,928,410</b>	1,762,535	<b>3,282,047</b>	1,762,535
Disposals	<b>(8,054,841)</b>	(762,096)	–	(762,096)
Balance at end of year	<b>7,747,220</b>	3,873,651	<b>7,155,698</b>	3,873,651
<b>Allowance for Impairment Losses (Note 14)</b>				
Balance at beginning of year	<b>1,651,673</b>	1,720,159	<b>1,651,673</b>	1,720,159
Provision	<b>2,438,779</b>	–	–	–
Reclassification	–	–	<b>(103,354)</b>	–
Disposals	<b>(1,399,534)</b>	(68,486)	–	(68,486)
Balance at end of year	<b>2,690,918</b>	1,651,673	<b>1,548,319</b>	1,651,673
<b>Net Book Value at the End of the Year</b>	<b>₱239,616,938</b>	₱236,068,078	<b>₱98,695,983</b>	₱64,033,816

Direct operating expenses on investment properties (included in ‘Litigation expense on assets acquired’ under ‘Miscellaneous expense’) amounted to ₱7.79 million and ₱3.47 million in 2013 and 2012 for the Group, and ₱2.43 million and ₱3.47 million in 2013 and 2012, respectively, for the Parent Company (see Note 22).

Gain (loss) on initial recognition of investment properties included in ‘Miscellaneous income’ of the Group amounted to ₱35.94 million and ₱5.18 million in 2013 and 2012 for the Group, and ₱34.51 million and ₱5.18 million in 2013 and 2012, respectively, for the Parent Company (see Note 22).

Gain on sale of investment properties included in ‘Miscellaneous income’ amounted to ₱6.78 million and ₱0.11 million in 2013 and 2012 for the Group and nil and ₱0.11 million in 2013 and 2012, respectively, for the Parent Company (see Note 22).

## 12. Branch licenses

The movements in this account follow:

	Consolidated		Parent Company	
	2013	2012	2013	2012
<b>Cost</b>				
Balance at beginning of year	<b>₱1,176,777,111</b>	₱554,377,111	<b>₱556,777,111</b>	₱554,377,111
Additions	<b>5,400,000</b>	2,400,000	<b>5,400,000</b>	2,400,000
Additions due to business combination (Note 9)	–	620,000,000	–	–
Balance at end of year	<b>1,182,177,111</b>	1,176,777,111	<b>562,177,111</b>	556,777,111
<b>Allowance for Impairment Losses</b>				
Balance at beginning and end of year (Note 14)	<b>232,526,929</b>	232,526,929	<b>232,526,929</b>	232,526,929
	<b>₱949,650,182</b>	₱944,250,182	<b>₱329,650,182</b>	₱324,250,182

## 13. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Software development costs	<b>₱226,490,082</b>	₱–	<b>₱226,490,082</b>	₱–
Repossessed chattels - net	<b>34,016,039</b>	43,047,714	<b>34,006,789</b>	43,047,714
Refundable deposits	<b>33,326,499</b>	24,785,191	<b>32,219,206</b>	22,149,597
Prepaid expenses	<b>22,053,819</b>	14,926,968	<b>20,597,909</b>	13,327,749
Creditable withholding tax	–	1,557,467	–	1,557,467
Sundry debits	<b>4,867,314</b>	7,317,393	<b>4,805,764</b>	7,301,512
Software costs - net	<b>5,175,518</b>	4,310,628	<b>2,621,768</b>	4,310,628
Advance payment to suppliers	<b>3,502,929</b>	23,139,901	<b>3,502,929</b>	23,139,901
Documentary stamp tax on hand	<b>3,250,258</b>	11,996,635	<b>495,716</b>	9,335,043
Shortages	<b>1,735,916</b>	1,801,791	<b>1,735,916</b>	1,779,573
RCOCI	–	632,151	–	–
Advances to a subsidiary (Note 24)	–	–	–	6,457,466
Others - net	<b>6,852,646</b>	10,332,630	<b>3,371,381</b>	6,988,599
	<b>₱341,271,020</b>	₱143,848,469	<b>₱329,847,460</b>	₱139,395,249

Software development costs represent costs incurred to date in the development of the Parent Company's core banking and other systems that are under the testing phase and will be rolled out after completion of all phases, including but not limited to further enhancement and testing.

Others include stationeries, office supplies, and other miscellaneous assets.

The composition of and the movements in repossessed chattels - net of the Parent Company follow:

	2013		
	Cars	Others	Total
<b>Cost</b>			
Balance at beginning of year	₱28,094,957	₱30,963,794	₱59,058,751
Additions	25,286,250	56,007,178	81,293,428
Disposals	(21,720,338)	(45,308,857)	(67,029,195)
Reclassifications	(7,259,174)	(7,494,434)	(14,753,608)
Balance at end of year	24,401,695	34,167,681	58,569,376
<b>Accumulated Depreciation</b>			
Balance at beginning of year	4,532,094	6,002,821	10,534,915
Depreciation (Note 10)	10,325,593	8,895,329	19,220,922
Disposals	(4,406,476)	(7,835,663)	(12,242,139)
Reclassifications	(1,647,527)	(285,464)	(1,932,991)
Balance at end of year	8,803,684	6,777,023	15,580,707
<b>Allowance for Impairment Losses</b> (Note 14)			
Balance at beginning of year	825,063	4,651,059	5,476,122
Provision	2,000,000	1,500,000	3,500,000
Reclassifications	–	5,758	5,758
Balance at end of year	2,825,063	6,156,817	8,981,880
<b>Net Book Value at the End of the Year</b>	<b>₱12,772,948</b>	<b>₱21,233,841</b>	<b>₱34,006,789</b>
	2012		
	Cars	Others	Total
<b>Cost</b>			
Balance at beginning of year	₱14,224,556	₱23,341,547	₱37,566,103
Additions	50,249,430	50,092,047	100,341,477
Disposals	(17,013,022)	(40,690,203)	(57,703,225)
Reclassifications	(19,366,007)	(1,779,597)	(21,145,604)
Balance at end of year	28,094,957	30,963,794	59,058,751
<b>Accumulated Depreciation</b>			
Balance at beginning of year	2,617,170	3,708,645	6,325,815
Depreciation (Note 10)	5,376,058	7,105,615	12,481,673
Disposals	(1,939,198)	(4,439,629)	(6,378,827)
Reclassifications	(1,521,936)	(371,810)	(1,893,746)
Balance at end of year	4,532,094	6,002,821	10,534,915
<b>Allowance for Impairment Losses</b> (Note 14)			
Balance at beginning of year	10,290,117	2,981,627	13,271,744
Provision	4,324,505	3,225,791	7,550,296
Reclassifications	(13,789,559)	(1,556,359)	(15,345,918)
Balance at end of year	825,063	4,651,059	5,476,122
<b>Net Book Value at the End of the Year</b>	<b>₱22,737,800</b>	<b>₱20,309,914</b>	<b>₱43,047,714</b>

As of December 31, 2013, repossessed chattels of LSB amounted to ₱9,250, net of accumulated depreciation and allowance for impairment losses of ₱201,652.

Loss on initial recognition of repossessed chattels included in 'Miscellaneous expense' amounted to ₱25.70 million and ₱17.22 million in 2013 and 2012, respectively, for the Parent Company (see Note 22).

Gain on sale of repossessed chattels included in 'Miscellaneous income' amounted to ₱6.38 million and ₱4.79 million in 2013 and 2012, respectively, for the Parent Company (see Note 22).

Movements in software costs - net follow:

	Consolidated		Parent Company	
	2013	2012	2013	2012
<b>Cost</b>				
Balance at beginning of year	₱74,785,967	₱72,161,135	₱74,785,967	₱72,161,135
Additions	3,405,000	2,624,832	–	2,624,832
Reclassification	(244,453)	–	(244,453)	–
	<b>77,946,514</b>	<b>74,785,967</b>	<b>74,541,514</b>	<b>74,785,967</b>
<b>Accumulated Amortization</b>				
Balance at beginning of year	70,475,339	67,436,912	70,475,339	67,436,912
Amortization (Note 10)	2,540,110	3,352,570	1,688,860	3,352,570
Reclassification	(244,453)	(314,143)	(244,453)	(314,143)
Balance at end of year	<b>72,770,996</b>	<b>70,475,339</b>	<b>71,919,746</b>	<b>70,475,339</b>
<b>Net Book Value at the End of the Year</b>	<b>₱5,175,518</b>	<b>₱4,310,628</b>	<b>₱2,621,768</b>	<b>₱4,310,628</b>

#### 14. Allowance for Credit and Impairment Losses

Changes in the allowance for credit and impairment losses follow:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Balance at beginning of year				
Loans and receivables	₱520,580,484	₱417,319,740	₱520,580,484	₱417,319,740
Investment properties	1,651,673	1,720,159	1,651,673	1,720,159
Branch licenses	232,526,929	232,526,929	232,526,929	232,526,929
Repossessed chattels	5,476,122	13,271,744	5,476,122	13,271,744
	<b>760,235,208</b>	<b>664,838,572</b>	<b>760,235,208</b>	<b>664,838,572</b>
Provision for the year	171,711,627	118,542,209	109,164,080	118,542,209
Disposals	(5,038,050)	(1,687,193)	(3,741,870)	(1,687,193)
Accounts charged-off	(164,269,421)	(21,458,380)	(162,721,143)	(21,458,380)
	<b>2,404,156</b>	<b>95,396,636</b>	<b>(57,298,933)</b>	<b>95,396,636</b>
Balance at end of year				
Loans and receivables (Note 8)	518,051,487	520,580,484	459,879,147	520,580,484
Investment properties (Note 11)	2,690,918	1,651,673	1,548,319	1,651,673
Branch licenses (Note 12)	232,526,929	232,526,929	232,526,929	232,526,929
Repossessed chattels (Note 13)	8,981,880	5,476,122	8,981,880	5,476,122
Other assets	388,150	–	–	–
	<b>₱762,639,364</b>	<b>₱760,235,208</b>	<b>₱702,936,275</b>	<b>₱760,235,208</b>

A reconciliation of the allowance for credit losses by class of loans and receivables follows (in thousands):

Consolidated						
2013						
	Commercial	Consumption	Real Estate	Domestic Bills Purchased	Others	Total
Balance at beginning of year	P361,786	P98,798	P36,922	P2,795	P20,280	P520,581
Provision for the year	115,764	30,552	453	–	18,617	165,386
Reclassifications	(114,691)	(31,912)	–	–	(7,412)	(154,015)
Accounts charged-off	(125,345)	75,757	30,518	–	5,170	(13,900)
<b>Balance at end of year</b>	<b>P237,514</b>	<b>P173,195</b>	<b>P67,893</b>	<b>P2,795</b>	<b>P36,655</b>	<b>P518,052</b>
Individual impairment	162,445	–	–	–	–	P162,445
Collective impairment	75,069	173,195	67,893	2,795	36,655	355,607
	<b>P237,514</b>	<b>P173,195</b>	<b>P67,893</b>	<b>P2,795</b>	<b>P36,655</b>	<b>P518,052</b>
Gross amount of loans and receivables individually determined to be impaired	<b>P857,533</b>	<b>P84,204</b>	<b>P12,736</b>	<b>P–</b>	<b>P22,821</b>	<b>P977,294</b>
Parent Company						
2013						
	Commercial	Consumption	Real Estate	Domestic Bills Purchased	Others	Total
Balance at beginning of year	P361,786	P98,798	P36,922	P2,795	P20,280	P520,581
Provision for the year	57,935	29,376	453	–	17,901	105,665
Reclassifications	(110,510)	(31,912)	–	–	(10,045)	(152,467)
Accounts charged-off	(125,345)	75,757	30,518	–	5,170	(13,900)
<b>Balance at end of year</b>	<b>P183,866</b>	<b>P172,019</b>	<b>P67,893</b>	<b>P2,795</b>	<b>P33,306</b>	<b>P459,879</b>
Individual impairment	P108,111	P–	P–	P–	P–	P108,111
Collective impairment	75,755	172,019	67,893	2,795	33,306	351,768
	<b>P183,866</b>	<b>P172,019</b>	<b>P67,893</b>	<b>P2,795</b>	<b>P33,306</b>	<b>P459,879</b>
Gross amount of loans and receivables individually determined to be impaired	<b>P504,427</b>	<b>P–</b>	<b>P–</b>	<b>P–</b>	<b>P–</b>	<b>P504,427</b>
Consolidated and Parent Company						
2012						
	Commercial	Consumption	Real Estate	Domestic Bills Purchased	Others	Total
Balance at beginning of year	P272,988	P80,318	P40,315	P1,358	P22,341	P417,320
Provision for the year	91,396	5,278	13,000	–	762	110,436
Reclassifications	(2,598)	34,602	(16,393)	1,437	(2,823)	14,225
Accounts charged-off	–	(21,400)	–	–	–	(21,400)
<b>Balance at end of year</b>	<b>P361,786</b>	<b>P98,798</b>	<b>P36,922</b>	<b>P2,795</b>	<b>P20,280</b>	<b>P520,581</b>
Individual impairment	P191,712	P–	P–	P–	P13,884	P205,596
Collective impairment	170,074	98,798	36,922	2,795	6,396	314,985
	<b>P361,786</b>	<b>P98,798</b>	<b>P36,922</b>	<b>P2,795</b>	<b>P20,280</b>	<b>P520,581</b>
Gross amount of loans and receivables individually determined to be impaired	<b>P381,384</b>	<b>P–</b>	<b>P–</b>	<b>P–</b>	<b>P13,884</b>	<b>P395,268</b>

## 15. Deposit Liabilities

Of the total deposit liabilities of the Group as of December 31, 2013 and 2012, 62.57% and 67.22%, respectively, are subject to periodic interest repricing. Remaining deposit liabilities bear annual fixed interest rates ranging from nil to 0.75% and nil to 2.75% in 2013 and 2012, respectively.

On March 29, 2012, the BSP issued Circular No. 753 mandating the unification of the statutory and liquidity reserve requirement on deposit liabilities and deposit substitutes. As such, effective the reserve week starting April 6, 2012, non-FCDU deposit liabilities of the Parent Company and LSB are subject to required reserves equivalent to 18.00% and 6.00%, respectively. In compliance with this circular, government securities which are used as compliance with the liquidity reserve requirements shall continue to be eligible until they mature and cash in vault shall no longer be included as reserve. The required reserves shall be kept in the form of deposits maintained in the Demand Deposit Accounts (DDAs) with the BSP. Further, deposits maintained with the BSP in compliance with the reserve requirement shall no longer be paid interest.

The Group's liquidity and statutory reserves as reported to the BSP follow:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Due from BSP	<b>₱6,724,995,107</b>	₱5,756,584,476	<b>₱5,574,995,577</b>	₱5,000,141,875

As of December 31, 2013 and 2012, the Group is in compliance with the regulations.

The details of interest expense on deposit liabilities follow:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Savings	<b>₱306,021,071</b>	₱533,822,581	<b>₱283,945,832</b>	₱533,822,581
Time	<b>247,514,827</b>	192,751,001	<b>210,015,563</b>	192,751,001
Demand	<b>4,572,333</b>	18,897,859	<b>4,572,333</b>	18,897,859
	<b>₱558,108,231</b>	₱745,471,441	<b>₱498,533,728</b>	₱745,471,441

## 16. Redeemable Preferred Shares

In 2013, the Parent Company acquired 29,000 redeemable preferred shares at ₱1,000 par value from LSB.

The details of LSB's redeemable preferred shares follow:

	2013		2012	
	Shares	Amount	Shares	Amount
Preferred stock - ₱1,000 par value				
Authorized	<b>50,000</b>	<b>₱50,000,000</b>	50,000	₱50,000,000
Issued and outstanding				
Balances at beginning of year	<b>30,700</b>	<b>₱30,700,000</b>	29,900	₱29,900,000
Issuance during the year	–	–	800	800,000
Balances at end of year	<b>30,700</b>	<b>₱30,700,000</b>	30,700	₱30,700,000

The preferred stock has the following features:

- a. The minimum subscription is 100 shares and payable in cash;
- b. The shares shall earn monthly interest at a rate to be fixed by the BOD, but such interest shall not be less than the prevailing market interest rates and said shares shall not be treated as time deposit, deposit substitute or as other form of borrowings;
- c. The interest shall be paid in the form of dividends cumulatively, which may be declared annually or as often as the BOD may determine;
- d. The shares shall have preference in the distribution of dividends and in the distribution of assets in case of liquidation or dissolution, provided, however that no dividend shall be declared or paid on redeemable shares in the absence of sufficient undivided profits, free surplus and approval of the BSP;
- e. The shares are non-voting on matters provided for in the last paragraph of Section 6 of the Corporation Code.
- f. Pre-emptive rights are not available on preferred shares nor shall they be subject to one and the shares shall be held for five (5) years with a right of alienation or encumbrance of the same to any third person within the period of five years from the original date of subscription, provided, however, that on the 5th year the holder shall be obliged to surrender the same to the corporation and upon prior approval of the BSP and in compliance with the provisions of the MORB and the BSP's circulars regarding this matter, the corporation shall be obliged to take up the subscription at the price when the preferred shares of stock were originally subscribed. Provided that shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption and provided further, that the corporation is not insolvent or if such redemption will not cause insolvency, impairment of capital or inability of the corporation to meet its debts as they mature; and
- g. As of December 31, 2013, LSB has not yet created a sinking fund pending request from BSP to redeem and retire the preferred shares. The fund that will be used to redeem the preferred shares will be taken from the equity infused by the Parent Company, of which a large part is now lodged in LSB's books as 'Deposit for stock subscription' pending approval from regulators of the increase in LSB's authorized capital stock.

The shares may again be disposed of by LSB for a price fixed by the BOD.

Based on the BOD resolution on March 6, 2013, the entire redeemable preferred shares of LSB will be retired after its redemption subject to BSP's approval.

---

## 17. Accrued Expenses and Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2013	2012 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)
Bills purchased - contra	<b>₱717,356,029</b>	₱495,138,146	<b>₱717,356,029</b>	₱495,138,146
Accrued expenses	<b>401,967,533</b>	316,803,665	<b>371,123,140</b>	316,415,104
Accounts payable	<b>188,975,911</b>	253,208,891	<b>181,038,276</b>	246,213,330
Accrued interest payable	<b>54,609,652</b>	88,584,874	<b>54,335,164</b>	87,902,731
Dormant manager's checks	<b>51,076,102</b>	47,526,131	<b>51,076,102</b>	47,526,131
Retirement liability (Note 20)	<b>36,221,179</b>	52,832,666	<b>35,728,955</b>	52,832,666

(Forward)

	Consolidated		Parent Company	
	2013	2012 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)
Withholding taxes and other taxes payable	₱34,165,455	₱33,298,615	₱33,408,273	₱31,291,670
Advances from LSB	–	–	7,301,429	–
Others	17,878,360	49,229,362	13,604,312	3,367,222
	<b>₱1,502,250,221</b>	<b>₱1,336,622,350</b>	<b>₱1,464,971,680</b>	<b>₱1,280,687,000</b>

Accrued expenses consist of accruals and provisions for general expenses, bonuses and insurance on deposits, fees and advertisements. The consolidated balance of accrued expenses in 2012 includes LSB's retirement liability amounting to ₱45.31 million which was subsequently paid to the employees in January 2013.

Accounts payable consists of payables to service providers and advance payments from customers.

Others consist mainly of payables to agencies servicing employee welfare such as Social Security System, Home Development Mutual Fund, Medicare and accrued separation benefits of LSB.

## 18. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from statements of financial position date:

	Consolidated					
	2013			2012 (As Restated - Note 2)		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
<b>Financial Assets</b>						
Cash and other cash items	₱1,143,258,839	₱–	₱1,143,258,839	₱1,038,282,061	₱–	₱1,038,282,061
Due from BSP	11,437,995,107	–	11,437,995,107	8,106,584,476	–	8,106,584,476
Due from other banks	2,135,050,452	–	2,135,050,452	2,169,927,996	–	2,169,927,996
Interbank loans receivable	3,000,000,000	99,000,000	3,099,000,000	–	100,000,000	100,000,000
Derivative assets	–	–	–	109,088,614	–	109,088,614
Financial assets at FVPL	1,094,982,315	–	1,094,982,315	2,185,673,337	–	2,185,673,337
AFS investments	229,518,278	5,604,640,914	5,834,159,192	414,767,460	6,884,400,529	7,299,167,989
HTM investment	–	75,000,000	75,000,000	–	–	–
Loans and receivables - gross	6,156,737,612	13,172,142,031	19,328,879,643	5,801,590,456	13,007,904,520	18,809,494,976
Other assets	32,219,206	1,107,293	33,326,499	25,417,342	–	25,417,342
	<b>25,229,761,809</b>	<b>18,951,890,238</b>	<b>44,181,652,047</b>	<b>19,851,331,742</b>	<b>19,992,305,049</b>	<b>39,843,636,791</b>
<b>Nonfinancial Assets</b>						
Property and equipment - net	–	472,102,324	472,102,324	–	419,856,455	419,856,455
Investment properties - net	–	239,616,938	239,616,938	–	236,068,078	236,068,078
Branch licenses - net	–	949,650,182	949,650,182	–	944,250,182	944,250,182
Goodwill	–	244,327,006	244,327,006	–	244,327,006	244,327,006
Other assets	161,028,965	146,915,556	307,944,521	68,312,216	50,118,911	118,431,127
	<b>25,390,790,774</b>	<b>21,004,502,244</b>	<b>46,395,293,018</b>	<b>19,919,643,958</b>	<b>21,886,925,681</b>	<b>41,806,569,639</b>
Less:						
Unearned interest and discounts	–	–	546,863	–	–	9,670,273
Allowance for credit and impairment losses - loans and receivables	–	–	518,051,487	–	–	520,580,484
	<b>₱25,390,790,774</b>	<b>₱21,004,502,244</b>	<b>₱45,876,694,668</b>	<b>₱19,919,643,958</b>	<b>₱21,886,925,681</b>	<b>₱41,276,318,882</b>

(Forward)

<b>Consolidated</b>						
	2013			2012 (As Restated - Note 2)		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
<b>Financial Liabilities</b>						
Deposit liabilities	P36,398,416,848	P2,374,735,148	P38,773,151,996	P32,031,727,128	P1,929,498,001	P33,961,225,129
Manager's checks	237,145,631	-	237,145,631	170,814,553	-	170,814,553
Redeemable preferred shares	-	1,700,000	1,700,000	30,700,000	-	30,700,000
Accrued expenses and other liabilities	1,405,073,299	492,224	1,405,565,523	1,246,572,357	-	1,246,572,357
	<b>38,040,635,778</b>	<b>2,376,927,372</b>	<b>40,417,563,150</b>	<b>33,479,814,038</b>	<b>1,929,498,001</b>	<b>35,409,312,039</b>
<b>Nonfinancial Liabilities</b>						
Income tax payable	6,346,776	-	6,346,776	202,617	-	202,617
Deferred tax liability	-	68,966,845	68,966,845	-	104,147,329	104,147,329
Accrued expenses and other liabilities	60,955,743	35,728,955	96,684,698	37,217,327	52,832,666	90,049,993
	<b>67,302,519</b>	<b>104,695,800</b>	<b>171,998,319</b>	<b>37,419,944</b>	<b>156,979,995</b>	<b>194,399,939</b>
	<b>P38,107,938,297</b>	<b>P2,481,623,172</b>	<b>P40,589,561,469</b>	<b>P33,517,233,982</b>	<b>P2,086,477,996</b>	<b>P35,603,711,978</b>
<b>Parent Company</b>						
	2013			2012 (As Restated)		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
<b>Financial Assets</b>						
Cash and other cash items	P1,109,208,879	P-	P1,109,208,879	P987,867,163	P-	P987,867,163
Due from BSP	10,287,995,577	-	10,287,995,577	7,350,141,875	-	7,350,141,875
Due from other banks	2,015,697,154	-	2,015,697,154	1,992,569,303	-	1,992,569,303
Interbank loans receivable	3,000,000,000	99,000,000	3,099,000,000	-	100,000,000	100,000,000
Derivative assets	-	-	-	109,088,614	-	109,088,614
Financial assets at FVPL	1,094,982,315	-	1,094,982,315	2,185,673,337	-	2,185,673,337
AFS investments	229,518,278	5,633,640,914	5,863,159,192	414,767,460	6,882,086,516	7,296,853,976
HTM investment	-	75,000,000	75,000,000	-	-	-
Loans and receivables - gross	5,332,493,882	12,895,407,964	18,227,901,846	5,267,824,681	12,566,782,084	17,834,606,765
Other assets	32,219,206	-	32,219,206	28,607,063	-	28,607,063
	<b>23,102,115,291</b>	<b>18,703,048,878</b>	<b>41,805,164,169</b>	<b>18,336,539,496</b>	<b>19,548,868,600</b>	<b>37,885,408,096</b>
<b>Nonfinancial Assets</b>						
Property and equipment	-	433,953,133	433,953,133	-	375,945,804	375,945,804
Investment properties - net	-	98,695,983	98,695,983	-	64,033,816	64,033,816
Branch licenses - net	-	329,650,182	329,650,182	-	324,250,182	324,250,182
Deferred tax asset	-	99,543,511	99,543,511	-	81,852,671	81,852,671
Investment in a subsidiary	-	731,000,000	731,000,000	-	731,000,000	731,000,000
Other assets	297,628,254	-	297,628,254	63,429,844	47,358,342	110,788,186
	<b>23,399,743,545</b>	<b>20,395,891,687</b>	<b>43,795,635,232</b>	<b>18,399,969,340</b>	<b>21,173,309,415</b>	<b>39,573,278,755</b>
Less:						
Unearned interest and discounts	-	-	315,662	-	-	474,087
Allowance for credit and impairment losses - loans and receivables	-	-	459,879,147	-	-	520,580,484
	<b>P23,399,743,545</b>	<b>P20,395,891,687</b>	<b>P43,335,440,423</b>	<b>P18,399,969,340</b>	<b>P21,173,309,415</b>	<b>P39,052,224,184</b>
<b>Financial Liabilities</b>						
Deposit liabilities	P34,459,544,214	P1,944,149,875	P36,403,694,089	P29,998,415,109	P1,929,498,001	P31,927,913,110
Manager's checks	237,145,631	-	237,145,631	170,814,553	-	170,814,553
Accrued expenses and other liabilities	1,382,230,140	-	1,382,230,140	1,193,195,442	-	1,193,195,442
	<b>36,078,919,985</b>	<b>1,944,149,875</b>	<b>38,023,069,860</b>	<b>31,362,425,104</b>	<b>1,929,498,001</b>	<b>33,291,923,105</b>
<b>Nonfinancial Liabilities</b>						
Income tax payable	3,226,328	-	3,226,328	202,617	-	202,617
Accrued expenses and other liabilities	47,012,585	35,728,955	82,741,540	34,658,892	52,832,666	87,491,558
	<b>48,966,083</b>	<b>35,728,955</b>	<b>85,967,868</b>	<b>34,861,509</b>	<b>52,832,666</b>	<b>87,694,175</b>
	<b>P36,127,886,068</b>	<b>P1,979,878,830</b>	<b>P38,109,037,728</b>	<b>P31,397,286,613</b>	<b>P1,982,330,667</b>	<b>P33,379,617,280</b>

---

## 19. Equity

### Capital Stock

The details of the Parent Company's capital stock follow:

Preferred stock A- ₱10 par value	
Authorized - 356,316,500	
Issued - 310,641,564	₱3,106,415,640
Preferred stock B - ₱10 par value	
Authorized - 210,000,000	
Issued - 209,604,710	2,096,047,100
Common stock - ₱10 par value	
Authorized and issued - 43,683,500	436,835,000
	<hr/>
	₱5,639,297,740
	<hr/>

The preferred stock has the following features:

- Preferred stockholders are entitled to receive preferential but non-cumulative dividends at the rate to be determined by the BOD.
- Preferred stocks are redeemable at the option of the Parent Company at any time provided that the redemption price shall not be lower than the par value or higher than 110.00% of said par value.
- In the event of any voluntary or involuntary liquidation, the preferred stockholders are entitled to receive the liquidation value of the said shares equivalent to 110.00% of the par value plus any unpaid but declared dividends thereon. If the net assets of the Parent Company shall be insufficient to pay in full the liquidation value of all the preferred stock, then such net resources shall be distributed among such preferred stock ratably in accordance with the respective liquidation value of the shares they are holding.

### Surplus Reserves

In 2013 and 2012, the Parent Company's BOD approved to appropriate reserves for self-insurance amounting to ₱21.50 million and ₱3.60 million, respectively.

### Capital Management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements, as mandated by the BSP, and that the Group maintains 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. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payments 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 Group had complied with all externally imposed capital requirements throughout the year.

### Regulatory Capital

The BSP, under BSP Circular 538 dated August 4, 2006, has prescribed guidelines in implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform Base II Accord recommendations. The new BSP guidelines took effect on July 1, 2007.

The Group's regulatory capital consists of Tier 1 (core) capital, which comprises share capital and surplus including current year profit less required deductions such as deferred income tax and unsecured credit accommodations to directors, officers, stockholders and related interest (DOSRI). Certain adjustments are made to PFRS-based results and reserves as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes, among others, general loan loss provision. The risk based capital ratio of the Parent Company is expressed as a percentage of qualifying capital to risk weighted assets (RWA), which are computed based on BSP regulations.

Under existing BSP regulations, the determination of Group's compliance with the regulatory requirements and ratios is based on the amount of the Group's "unimpaired capital" (regulatory net worth) as reported to BSP, which is determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects. The combined capital accounts of the Group should not be less than an amount equal to 10.00% of its risk assets.

As approved, the BSP decided to maintain the present minimum overall CAR of banks and quasi-banks at 10.00%. However, consistent with Basel II recommendations, it approved major methodological revisions to the calculation of minimum capital that universal banks, commercial banks and their subsidiary banks and quasi-banks should hold against actual credit risk exposures.

The guidelines for allocating minimum capital to cover market risk was also amended to some extent, primarily to align specific market risk charges on trading book assets with the revised credit risk exposure guidelines. A completely new feature is the introduction of bank capital charge for operational risk. The required disclosures to the public of bank capital structure and risk exposures are also enhanced to promote greater market discipline in line with the so-called Pillar 3 of the Basel II recommendations.

The following table sets the regulatory capital of the Parent Company as reported to the BSP (in millions):

	2013	2012
Tier 1 capital	<b>₱4,858</b>	₱4,836
Tier 2 capital	–	(242)
Gross qualifying capital	<b>4,858</b>	4,594
Less required deductions	–	–
Total qualifying capital	<b>₱4,858</b>	₱4,594
Total RWA	<b>₱21,410</b>	₱17,464
Tier 1 capital ratio	<b>22.69%</b>	27.69%
Tier 2 capital ratio	–	(1.39%)
Risk-based capital adequacy ratio	<b>22.69%</b>	26.31%
Credit RWA	<b>₱17,563</b>	₱13,729
Market RWA	<b>1,288</b>	1,614
Operational RWA	<b>2,559</b>	2,121
Total RWA	<b>₱21,410</b>	₱17,464

Regulatory capital consists of Tier 1 capital, which comprises paid-up common stock, surplus, surplus reserves including current year profit, less total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI.

The other component of regulatory capital is Tier 2 capital, which represents the general loan loss provisions capped at a maximum of 1.25% of gross risk weighted assets. The general loan loss provisions are based on regulatory accounting principle.

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

In December 2010, the Basel Committee for Banking Supervision published the Basel III framework (revised in June 2011) to strengthen global capital standards, with the aim of promoting a more resilient banking sector. On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Group is required to comply with this circular effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratios of 7.50% with effect from January 1, 2014. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. BSP existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), and before the effectivity of BSP Circular No. 781 shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Group has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

A portion of the Parent Company's surplus corresponding to the surplus reserves amounting to ₱133.74 million and ₱112.24 million as of December 31, 2013 and 2012, respectively, is not available for dividend declaration.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

## 20. Retirement Plan

The Group has a noncontributory defined benefit retirement plan covering substantially all its officers and regular employees. Under this retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

In 2012, the Group established a plan asset for its defined benefit retirement plan.

The latest actuarial valuation of the retirement plan of the Group was made as of December 31, 2013. The principal actuarial assumptions used in determining retirement liability of the Group as of January 1 follow:

	Parent Company		LSB
	2013	2012	2013
Average remaining working life in years	11	12	13
Discount rate	5.82%	5.26%	–%
Salary rate increase	5.50%	5.50%	5.50%

Discount rates as of December 31, 2013 are 5.33% and 5.64% for the Parent Company and LSB, respectively.

The amounts recognized in the statements of financial position follow:

	Consolidated		Parent Company	
	2013	2012 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)
Present value of defined benefit obligation	₱87,975,678	₱65,542,509	₱87,483,454	₱65,542,509
Fair value of plan assets	(51,754,499)	(12,709,843)	(51,754,499)	(12,709,843)
Unfunded status/Retirement liability	₱36,221,179	₱52,832,666	₱35,728,955	₱52,832,666

The amounts of 'Retirement expense' included in 'Compensation and fringe benefits' in the statement of income follow:

	Consolidated		Parent Company	
	2013	2012 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)
Current service cost	₱11,480,639	₱9,030,200	₱10,988,415	₱9,030,200
Net interest cost	3,074,861	3,539,800	3,074,861	3,539,800
	₱14,555,500	₱12,570,000	₱14,063,276	₱12,570,000

Changes in net defined benefit obligation (DBO) of funded funds in 2013 follow:

	Present Value of DBO	Fair Value of Plan Assets	Net Retirement Liability (Asset)
Consolidated January 1, 2013	₱65,542,509	12,709,843	₱52,832,666
Net Benefit Cost in Consolidated Statement of Income			
Current service cost	11,480,639	–	11,480,639
Net interest cost	3,814,574	739,713	3,074,861
Sub-total	15,295,213	739,713	14,555,500
Benefits paid	(2,435,491)	(2,435,491)	–

(Forward)

<b>Consolidated</b>	<b>Present Value of DBO</b>	<b>Fair Value of Plan Assets</b>	<b>Net Retirement Liability (Asset)</b>
<b>Remeasurement in OCI</b>			
Return on plan assets (excluding amount included in net interest)	₱–	₱2,735,322	(₱2,735,322)
Actuarial changes arising from experience adjustments	5,129,438	–	5,129,438
Actuarial changes arising from changes in financial/demographic assumptions	4,444,009	–	4,444,009
Sub-total	9,573,447	2,735,322	6,838,125
Contributions	–	38,005,112	(38,005,112)
December 31, 2013	₱87,975,678	₱51,754,499	₱36,221,179

<b>Parent Company</b>	<b>Present Value of DBO</b>	<b>Fair Value of Plan Assets</b>	<b>Net Retirement Liability (Asset)</b>
January 1, 2013	₱65,542,509	12,709,843	₱52,832,666
<b>Net Benefit Cost in Consolidated Statement of Income</b>			
Current service cost	10,988,415	–	10,988,415
Net interest	3,814,574	739,713	3,074,861
Sub-total	14,802,989	739,713	14,063,276
Benefits paid	(2,435,491)	(2,435,491)	–
<b>Remeasurement in OCI</b>			
Return on plan assets (excluding amount included in net interest)	–	2,735,322	(2,735,322)
Actuarial changes arising from experience adjustments	5,129,438	–	5,129,438
Actuarial changes arising from changes in financial/demographic assumptions	4,444,009	–	4,444,009
Sub-total	9,573,447	2,735,322	6,838,125
Contributions	–	38,005,112	(38,005,112)
December 31, 2013	₱87,483,454	₱51,754,499	₱35,728,955

Changes in net DBO of funded funds in 2012 follow:

<b>Consolidated and Parent Company</b>	<b>Present Value of DBO</b>	<b>Fair Value of Plan Assets</b>	<b>Net Retirement Liability (Asset)</b>
January 1, 2012	₱54,291,600	–	₱54,291,600
<b>Net Benefit Cost in Consolidated Statement of Income</b>			
Current service cost	9,030,200	–	9,030,200
Net interest	3,539,800	–	3,539,800
Sub-total	12,570,000	–	12,570,000
Benefits paid	(10,165,582)	–	(10,165,582)

(Forward)

<b>Consolidated and Parent Company</b>	<b>Present Value of DBO</b>	<b>Fair Value of Plan Assets</b>	<b>Net Retirement Liability (Asset)</b>
<b>Remeasurement in OCI</b>			
Return on plan assets (excluding amount included in net interest)	₱–	₱41,472	(₱41,472)
Actuarial changes arising from experience adjustments	4,531,206	–	4,531,206
Actuarial changes arising from changes in financial/demographic assumptions	4,315,285	–	4,315,285
Sub-total	8,846,491	41,472	8,805,019
Contributions	–	12,668,371	(12,668,371)
December 31, 2012	₱65,542,509	₱12,709,843	₱52,832,666

In 2012, the Parent Company paid retirement benefits using cash from its own operations.

The major categories of plan assets as a percentage of the fair value of total plan assets follow:

	<b>2013</b>	<b>2012</b>
Deposits in banks	<b>63.60%</b>	99.97%
Debt securities	<b>35.98%</b>	–%
Other assets	<b>0.42%</b>	0.03%
	<b>100.00%</b>	100.00%

Movements in “Remeasurement losses on retirement plan” of the Group in OCI follow:

	<b>2013</b>	<b>2012</b> (As Restated - Note 2)
Balance at beginning of year	<b>₱25,971,237</b>	₱17,166,218
<b>Remeasurement losses on retirement plan in OCI</b>		
Return on plan assets (excluding amount included in net interest)	<b>(2,735,322)</b>	(41,472)
Due to experience adjustments	<b>5,129,438</b>	4,531,206
Due to changes in financial/demographic assumptions	<b>4,444,009</b>	4,315,285
Sub-total	<b>6,838,125</b>	8,805,019
Balance at end of year	<b>32,809,362</b>	25,971,237
Tax effect	<b>9,842,809</b>	7,791,371
Balance at end of year, net of tax	<b>₱22,966,553</b>	₱18,179,866

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

	<b>+/- basis points (bps)</b>	<b>Impact to DBO</b>
<b>Discount rate</b>	+100 bps	₱78,684,208
	-100 bps	98,021,314
<b>Salary increase rate</b>	+100 bps	97,447,296
	-100 bps	78,977,016

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

	<b>2013</b>	2012
Less than 1 year	<b>₱7,895,285</b>	₱1,132,105
More than 1 year to 5 years	<b>26,697,288</b>	26,256,952
More than 5 years to 10 years	<b>49,131,399</b>	45,859,180
More than 10 years to 15 years	<b>97,767,079</b>	99,826,226
More than 15 years to 20 years	<b>172,185,365</b>	167,266,213
More than 20 years	<b>504,567,407</b>	416,924,063

## 21. Leases

### *Operating Lease - Group as Lessee*

The Parent Company leases its head office and branch premises for periods ranging from one (1) to ten (10) years, renewable upon mutual agreement of both parties. LSB also leases the premises occupied by its Head Offices and most of its branches.

Lease rentals charged to operations amounting to ₱125.59 million and ₱95.78 million in 2013 and 2012, respectively, are included under 'Occupancy and equipment-related expenses' in the statements of income for the Group.

Future minimum rentals payable on non-cancellable leases follow:

	<b>Consolidated</b>		<b>Parent Company</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
Within one year	<b>₱111,685,416</b>	₱85,806,828	<b>₱106,005,561</b>	₱79,630,998
Beyond one year but not more than five years	<b>285,684,755</b>	176,408,491	<b>266,193,771</b>	150,311,306
More than five years	<b>32,009,632</b>	62,012,908	<b>16,711,447</b>	24,903,638
	<b>₱429,379,803</b>	₱324,228,227	<b>₱388,910,779</b>	₱254,845,942

### *Finance Lease - LSB as Lessor*

LSB has entered to a lease on its investment property portfolio. The lease contract provides an option to purchase the properties the end of the lease term. The lease has a lease term of ten (10) years, from April 30, 2009 to March 31, 2019. The building being leased out has an estimated useful life of ten (10) years. Lease receivables amounts to ₱7.50 million and ₱7.23 million as of December 31, 2013 and 2012, respectively.

## 22. Income and Expenses

Net service fees and commission income consists of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Service fees and commission income:				
Credit-related	<b>₱105,833,569</b>	₱66,384,080	<b>₱90,051,446</b>	₱66,384,080
Deposit-related	<b>73,485,328</b>	61,236,927	<b>67,253,376</b>	61,236,927
Trust and other fiduciary	<b>13,050,998</b>	18,506,942	<b>13,050,998</b>	18,506,942
Commissions	<b>7,881,727</b>	6,605,503	<b>7,670,609</b>	6,605,503
Utility and store payment charges	<b>202,592</b>	657,980	<b>202,592</b>	657,980
	<b>200,454,214</b>	153,391,432	<b>178,229,021</b>	153,391,432
Service charges and commission expense:				
Banking fees	<b>31,022,190</b>	28,776,385	<b>31,022,190</b>	28,776,385
Brokerage and commissions	<b>5,454,995</b>	2,331,683	<b>4,368,234</b>	2,331,683
Other banking fees	<b>4,656,510</b>	2,730,473	<b>4,656,510</b>	2,730,473
	<b>41,133,695</b>	33,838,541	<b>40,046,934</b>	33,838,541
	<b>₱159,320,519</b>	₱119,552,891	<b>₱138,182,087</b>	₱119,552,891

Miscellaneous income consists of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Penalties	<b>₱67,375,148</b>	₱46,406,923	<b>₱59,934,254</b>	₱46,406,923
Gain on initial recognition of investment properties (Note 11)	<b>35,943,862</b>	5,179,905	<b>34,506,401</b>	5,179,905
Gain on sale of repossessed chattels (Note 13)	<b>6,375,484</b>	4,785,836	<b>6,375,484</b>	4,785,836
Recovery on charged-off assets	<b>4,666,113</b>	545,198	<b>4,297,127</b>	545,198
Gain on sale of investment properties (Note 11)	<b>6,783,867</b>	110,039	–	110,039
Gain on sale of property and equipment (Note 10)	<b>128,670</b>	1,257,745	<b>274,726</b>	1,257,745
Others	<b>16,241,304</b>	1,367,913	<b>1,353,278</b>	1,367,913
	<b>₱137,514,448</b>	₱59,653,559	<b>₱106,741,270</b>	₱59,653,559

Other income includes share on notarial and insurance fees, rental income from safety deposit box, night depository and dividend income.

Miscellaneous expenses consist of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Litigation expense on assets acquired (Note 11)	<b>₱7,793,037</b>	₱3,466,321	<b>₱2,425,616</b>	₱3,466,321
Loss on initial recognition of repossessed chattels (Note 13)	<b>25,703,594</b>	17,218,087	<b>25,703,594</b>	17,218,087
Transportation and travel	<b>24,589,297</b>	17,973,273	<b>19,370,239</b>	17,973,273
Stationery and supplies	<b>24,319,793</b>	18,494,461	<b>21,160,435</b>	18,494,461

(Forward)

	Consolidated		Parent Company	
	2013	2012	2013	2012
Advertising	<b>₱16,423,604</b>	₱11,331,599	<b>₱9,766,729</b>	₱11,331,599
Membership dues	<b>6,006,973</b>	6,892,971	<b>5,924,173</b>	6,892,971
Appraisal fees	<b>4,030,626</b>	7,113,465	<b>4,030,626</b>	7,113,465
Others	<b>64,503,146</b>	33,013,402	<b>62,157,390</b>	33,013,402
	<b>₱173,370,070</b>	₱115,503,579	<b>₱150,538,802</b>	₱115,503,579

Other expenses include notarial fee, registration expense, periodicals and magazines, donations, freight charges, loss on skimming, etc.

### 23. Income and Other Taxes

Under Philippine tax laws, the Parent Company is 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 consist of final withholding taxes on gross interest income from government securities, deposits and other deposit substitutes, tax on the FCDU income and RCIT, as discussed below, on net taxable income. These income taxes, as well as the deferred tax benefit, are presented in the statement of income as 'Provision for income tax'.

Current tax regulations provide that the RCIT rate shall be 30.00%. Interest allowed as deductible expense shall be 33.00% of interest income subjected to final tax.

The optional standard deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. In 2013 and 2012, the Parent Company elected to claim itemized expense deductions instead of the OSD in the RCIT computation.

The regulations also provide for MCIT of 2.00% of modified gross income and allow a NOLCO benefit. Both the excess of MCIT over the RCIT and NOLCO may be applied against the regular tax liability and taxable income, respectively, over three (3) years from the year of inception.

Current tax regulations also provide for the ceiling on the amount of entertainment and representation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Parent Company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. EAR expenses of the Parent Company amounted to ₱31.66 million and ₱38.89 million in 2013 and 2012, respectively.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. Current tax regulations provide that the income derived by the FCDU from foreign currency-denominated transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency-denominated loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax. FCDUs' all other income is subject to 30.00% income tax.

Provision for income tax consists of:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Current:				
Final	<b>₱83,894,074</b>	₱120,567,016	<b>₱81,079,846</b>	₱120,567,016
RCIT	<b>96,788,893</b>	19,369,555	<b>96,788,893</b>	19,369,555
MCIT	<b>4,154,340</b>	337,363	<b>353,337</b>	337,363
Special rate	<b>1,678,180</b>	1,890,945	<b>1,678,180</b>	1,890,945
	<b>186,515,487</b>	142,164,879	<b>179,900,256</b>	142,164,879
Deferred	<b>(34,591,171)</b>	(12,740,340)	<b>(17,242,616)</b>	(12,740,340)
	<b>₱151,924,316</b>	₱129,424,539	<b>₱162,657,640</b>	₱129,424,539

Net deferred tax asset (liability) of the Group and the Parent Company consist of the following:

	Consolidated		Parent Company	
	2013	2012 (As Restated - Note 2)	2013	2012 (As Restated - Note 2)
Deferred tax assets on:				
Unfunded profit sharing	<b>₱53,951,603</b>	₱60,809,597	<b>₱53,951,603</b>	₱60,809,597
Allowance for credit and impairment losses	<b>23,808,015</b>	17,180,926	<b>4,190,547</b>	17,180,926
Retirement liability	<b>19,921,338</b>	17,256,944	<b>19,921,338</b>	17,256,944
Unrealized loss on financial asset at FVPL	<b>16,284,420</b>	3,750,324	<b>16,284,420</b>	3,750,324
Depreciation on investment properties and repossessed chattels	<b>11,024,153</b>	4,273,262	<b>11,024,153</b>	4,273,262
Unrealized loss on initial recognition of repossessed chattels	<b>7,535,592</b>	1,819,577	<b>7,535,592</b>	1,819,577
Net unrealized loss on AFS investments	<b>1,138,852</b>	–	<b>1,138,852</b>	–
Unrealized foreign exchange loss	–	14,207,660	–	14,207,660
Unrealized loss on initial recognition of investment properties	–	706,391	–	706,391
	<b>133,663,973</b>	120,004,681	<b>114,046,505</b>	120,004,681
Deferred tax liability on:				
Branch licenses	<b>(186,000,000)</b>	(186,000,000)	–	–
Unrealized gain on initial recognition of investment properties	<b>(14,953,209)</b>	(1,553,972)	<b>(12,825,385)</b>	(1,553,972)
Prepaid rent	<b>(1,665,683)</b>	(1,623,860)	<b>(1,665,683)</b>	(1,623,860)
Unrealized foreign exchange gain	<b>(11,926)</b>	–	<b>(11,926)</b>	–
Unrealized gain on derivative assets	–	(32,726,584)	–	(32,726,584)
Net unrealized gain on AFS investments (Note 7)	–	(2,247,594)	–	(2,247,594)
	<b>(202,630,818)</b>	(224,152,010)	<b>(14,502,994)</b>	(38,152,010)
	<b>(₱68,966,845)</b>	(₱104,147,329)	<b>₱99,543,511</b>	₱81,852,671

The Parent Company did not set up deferred tax assets on the following temporary differences since management believes that it is not highly probable that these differences will be realized in the future:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Allowance for credit and impairment losses	<b>₱974,389,481</b>	₱702,965,454	<b>₱659,635,012</b>	₱702,965,454
Unrealized loss on financial assets at FVPL	<b>100,050,737</b>	–	<b>100,050,737</b>	–
NOLCO	<b>6,846,280</b>	10,743,585	<b>6,697,547</b>	10,743,585
Excess of MCIT over RCIT	<b>9,434,510</b>	12,666,193	<b>690,700</b>	12,666,193
Depreciation on investment properties and repossessed chattels	<b>20,748,473</b>	7,257,424	–	7,257,424
Unfunded retirement liability	<b>5,537,627</b>	–	–	–
Accrued rent	<b>2,926,222</b>	–	–	–
	<b>₱1,119,933,330</b>	₱733,632,656	<b>₱767,073,996</b>	₱733,632,656

Details of NOLCO follow:

Inception Year	Consolidated			
	Amount	Used	Balance	Expiry Year
2012	₱148,733	₱–	₱148,733	2015
2011	27,107,447	20,409,900	6,697,547	2014
	<b>₱27,256,180</b>	<b>₱20,409,900</b>	<b>₱6,846,280</b>	

Inception Year	Parent Company			
	Amount	Used	Balance	Expiry Year
2011	₱27,107,447	₱20,409,900	₱6,697,547	2014

Details of the excess of MCIT over RCIT follow:

Inception Year	Consolidated				
	Amount	Used	Expired	Balance	Expiry Year
2013	₱4,073,213	₱–	₱–	₱4,073,213	2016
2012	2,704,326	–	–	2,704,326	2015
2011	12,123,034	9,466,063	–	2,656,971	2014
2010	12,328,830	–	12,328,830	–	2013
	<b>₱31,229,403</b>	<b>₱9,466,063</b>	<b>₱12,328,830</b>	<b>₱9,434,510</b>	

Inception Year	Parent Company				
	Amount	Used	Expired	Balance	Expiry Year
2013	₱353,337	₱–	₱–	₱353,337	2016
2012	337,363	–	–	337,363	2015
2011	9,466,063	9,466,063	–	–	2014
2010	12,328,830	–	12,328,830	–	2013
	<b>₱22,485,593</b>	<b>₱9,466,063</b>	<b>₱12,328,830</b>	<b>₱690,700</b>	

A reconciliation of statutory income tax rate to the effective income tax rate of the Parent Company follows:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Statutory income tax rate	30.00%	30.00%	30.00%	30.00%
Tax effect of:				
Nondeductible expenses	34.93%	46.01%	42.95%	46.01%
Application of NOLCO	(0.36%)	(12.69%)	(0.24%)	(12.69%)
Tax paid and tax-exempt income	(44.13%)	(40.02%)	(47.98%)	(40.02%)
Unrecognized deferred tax assets	6.78%	0.66%	7.28%	0.66%
Effective income tax rate	27.22%	23.96%	32.01%	23.96%

#### 24. 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 or if they are subjected to common control of common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities.

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 of comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

The significant transactions and outstanding balances of the Parent Company with its related party follow:

Related Party	Nature of Transaction	Parent Company		
		Amount/ Volume	2013 Outstanding Balance	Terms and Conditions/Nature
Subsidiary	Advances from a subsidiary	₱13,758,895	₱7,301,429	Transportation expenses and down payment for software cost
Affiliate	Receivable from customers - commercial loans	170,000,000	140,000,000	Secured loans with annual interest ranging from 3.50% to 6.375%
Affiliates	Receivable from customers - bills purchased	715,095,969	715,095,969	Non-interest bearing domestic bills purchased
Affiliates	Deposit liabilities	15,368,559,764	15,368,559,764	Various terms and with annual interest rates ranging from nil to 5.75%
Affiliates	Interest income	9,675,104	9,675,104	Interest income from secured commercial loans

		Parent Company		
		2013		
Related Party	Nature of Transaction	Amount/Volume	Outstanding Balance	Terms and Conditions/Nature
Affiliates	Interest expense	₱9,147,533	₱9,147,533	Interest expense on deposit liabilities
Affiliates	Rent expense	39,826,425	39,826,425	Office rental for branches with Robinsons Land Corporation
		Subsidiary		
		2013		
Related Party	Nature of Transaction	Amount/Volume	Outstanding Balance	Terms and Conditions/Nature
Parent	Accounts receivable	₱1,030,987	₱7,301,429	Transportation expenses and down payment for software cost
Key Employees	Receivable from customers	2,394,223	2,394,223	Loans of directors, officers and stockholders
Key Employees	Deposit liabilities	70,318	70,318	Deposits of directors, officers and stockholders
		Parent Company and Subsidiary		
		2012		
Related Party	Nature of Transaction	Amount/Volume	Outstanding Balance	Terms and Conditions/Nature
Subsidiary	Advances to a subsidiary	₱6,457,466	₱6,457,466	Transportation expenses and down payment for software cost
Affiliate	Receivable from customers - commercial loans	4,725,000,000	1,755,000,000	Secured loans with annual interest ranging from 5.00% to 6.81%
Affiliates	Receivable from customers - bills purchased	491,360,688	491,360,688	Non-interest bearing domestic bills purchased
Affiliates	Deposit liabilities	12,478,352,182	12,478,352,182	Various terms and with annual interest rates ranging from nil to 5.75%
Affiliates	Interest income	24,634,679	24,634,679	Interest income from secured commercial loans
Affiliates	Interest expense	10,566,591	10,566,591	Interest expense on deposit liabilities
Affiliates	Rent expense	32,428,970	32,428,970	Office rental for branches with Robinsons Land Corporation

In the ordinary course of business, the Parent Company has loan transactions with affiliates and with certain 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 the Bank's total regulatory capital or 15.00% of total loan portfolio, whichever is lower.

	Parent Company		LSB	
	2013	2012	2013	2012
Total outstanding DOSRI accounts	<b>₱855,095,969</b>	₱2,246,360,688	<b>₱2,387,476.82</b>	₱16,265,059
Percent of DOSRI accounts to total loans	<b>4.93</b>	13.37	<b>0.17</b>	1.15

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

The retirement fund of the Parent Company's employees amounted to ₱51.75 million and ₱12.71 million as of December 31, 2013 and 2012, respectively (see Note 20). The fund is being managed by JG Summit Multi-Employer Retirement Plan (MERP), a corporation created for the purpose of managing the funds of the Group, with Robinsons Bank Corporation (RBC)-Trust and Investment Group as the trustee.

Details of the transactions of the Parent Company with its retirement plan follow:

Related Party	Nature of Transaction	2013		
		Amount/Volume	Outstanding Balance	Terms and Conditions/Nature
Retirement plan	Contribution and interest earned	₱38,005,112	₱51,754,499	Contributions to the Fund plus interest earned during the year
Related Party	Nature of Transaction	2012		
		Amount/Volume	Outstanding Balance	Terms and Conditions/Nature
Retirement plan	Contribution and interest earned	₱12,709,843	₱12,709,843	Contributions to the Fund plus interest earned during the year

The retirement plan under the MERP has an Executive Retirement Committee, that is mandated to approve the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the plan. Certain members of the BOD of the Parent Company are represented in the Executive Retirement Committee. RBC manages the plan based on the mandate as defined in the trust agreement.

Details of remuneration of directors and other key management personnel of the Parent Company follow:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Short-term benefits	<b>₱49,114,576</b>	₱36,661,352	<b>₱36,638,597</b>	₱36,661,352
Post-employment benefits	<b>3,489,546</b>	10,583,926	<b>3,489,546</b>	10,583,926
	<b>₱52,604,122</b>	₱47,245,278	<b>₱40,128,143</b>	₱47,245,278

---

## 25. Trust Operations

Properties held by the Parent Company in fiduciary or agency capacity for their customers are not included in the accompanying statement of financial position since these are not assets of the Parent Company (see Note 26).

In compliance with the current banking regulations relative to the Parent Company's trust functions as of December 31, 2013 and 2012, government securities classified under AFS investments amounting to ₱245.00 million and ₱342.00 million, respectively, are deposited with the BSP (see Note 7).

An appropriation of 10.00% of the Parent Company's income from trust operations is set aside as surplus reserve to absorb any losses that may arise from its trust functions.

---

## 26. Commitments and Contingencies

- a. The Group is also involved in a number of legal proceedings. The estimate of the probable costs for the resolutions of these claims has been developed in consultation with outside counsel handling the Group's defense and is based on an analysis of potential results. The Group does not believe that these proceedings will have a material adverse effect on the financial statements.
- b. In the normal course of the Group's operations, there are various outstanding commitments, 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.

Following is a summary of the Group's commitments and contingent liabilities at their equivalent peso contractual amounts:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Trust and investment group accounts (Note 25)	<b>₱4,988,508,329</b>	₱13,441,544,662	<b>₱4,988,508,329</b>	₱13,441,544,662
Spot exchange - foreign currency	<b>424,860,317</b>	1,241,632,683	<b>424,860,317</b>	1,241,632,683
Committed credit lines	<b>2,276,299,665</b>	1,089,546,254	<b>2,276,299,665</b>	1,089,546,254
Letters of credit	<b>243,353,864</b>	536,386,478	<b>243,353,864</b>	536,386,478
Contingent - foreign currency swap	–	335,150,000	–	335,150,000
Inward bills for collection	<b>282,155,080</b>	189,580,052	<b>282,155,080</b>	189,580,052
Late deposit/payment received	<b>58,127,241</b>	34,063,107	<b>56,082,436</b>	30,177,129
Guarantees issued	<b>11,479,860</b>	–	<b>11,479,860</b>	–
Outward bills for collection	<b>13,655,160</b>	14,334,919	<b>13,655,160</b>	14,334,919
Items held for safekeeping	<b>72,229</b>	68,806	<b>68,992</b>	67,341
Other contingent account	<b>297,227</b>	288,927	<b>296,814</b>	287,494

---

## 27. Financial Performance

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

	Consolidated		Parent Company	
	2013	2012	2013	2012
Return on average equity	7.41%	7.43%	6.06%	7.43%
Return on average assets	0.93%	1.16%	0.86%	1.16%
Net interest margin on average earnings assets	3.96%	3.43%	3.64%	3.43%

---

## 28. Notes to Statements of Cash Flows

As of December 31, 2013 and 2012, the following items have original maturity of more than three (3) months and are not considered cash and cash equivalents:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Due from other banks	₱-	₱246,359,353	₱-	₱246,359,353
Interbank loans receivable	99,000,000	100,000,000	99,000,000	100,000,000
	<b>₱99,000,000</b>	<b>₱346,359,353</b>	<b>₱99,000,000</b>	<b>₱346,359,353</b>

Details of non-cash investing activities follow:

	Consolidated		Parent Company	
	2013	2012	2013	2012
Increase in investment properties due to foreclosure	₱15,112,327	₱18,001,705	₱3,674,787	₱18,001,705
Increase in repossessed chattels due to foreclosure	81,293,428	100,341,477	81,293,428	100,341,477
Increase in property and equipment due to reclassifications	14,753,608	21,145,604	14,753,608	21,145,604

---

## 29. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were approved and authorized for issue by the BOD on March 31, 2014.

### 30. Supplementary Information Required under Revenue Regulations (RR) 15-2010

The BIR issued RR No. 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. This RR include provisions for additional disclosure requirements in the notes to the financial statements, particularly on composition of taxes, duties, licenses paid or accrued during the year.

#### Supplementary Information Required Under RR No. 15-2010

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

#### *Gross Receipts Tax (GRT)*

The National Internal Revenue Code (NIRC) of 1997 provides for the imposition of GRT on gross receipts derived by banks from sources within the Philippines. Accordingly, the Parent Company's gross receipts are subject to GRT as re-imposed in RA No. 9238 beginning January 1, 2004.

Details of the Parent Company's gross receipts and GRT due declared and paid for taxable year 2013 follow:

	Gross Receipts	GRT Due
Interest income	₱1,862,609,524	₱85,891,559
Other income	227,552,438	14,258,588
	₱2,090,161,962	₱100,150,147

#### *Documentary Stamp Tax:*

The Documentary stamp tax (DST) paid or accrued on the following transactions are:

Transaction	Amount	DST thereon
Deposits	₱170,829,126,555	₱72,177,289
Loan instruments	23,181,823,778	45,358,792
	₱194,010,950,333	₱117,536,081

#### *Other Taxes and Licenses*

This includes all other taxes, local and national, including documentary stamp tax, fringe benefits tax, local business tax, licenses and permit fees lodged under the 'Salaries and employees' benefits and 'Taxes and Licenses' account in the statement of income and expenses.

a. <u>Local</u>	
Business Permits	₱6,561,612
Community Tax Certificates	12,629,260
b. <u>National</u>	
Gross Receipt Tax	₱89,422,451

Part of the GRT and DST remitted to the BIR are shouldered/ charged to clients/borrowers.

*Withholding Taxes*

The following table shows the breakdown of taxes withheld and remitted in 2013:

	Total Withheld	Total Remitted
Withholding tax on deposits	₱70,012,548	₱70,012,548
Withholding taxes on compensation and benefits	56,089,205	56,089,205
Expanded withholding taxes	16,635,551	16,635,551
	<u>₱142,737,304</u>	<u>₱142,737,304</u>

As of December 31, 2013, there are no outstanding tax cases under investigation, litigation or prosecution in courts or bodies outside BIR.

# LSB BRANCHES

## HEAD OFFICE

Rizal Street, Sagpon, Old Albay District 4500 Legazpi City  
Telephone Nos. (052) 480-6964; (052) 820-6280  
Fax Nos. (052) 480-7008; (052) 480-5959

## MAIN BRANCH

Rizal Street, Sagpon, Old Albay District 4500  
Legazpi City  
Telephone Nos. (052) 481-1145; (052) 820-2959  
Banking Hours: Mon - Fri 9am - 5pm

## LEGAZPI BRANCH

Corner Rizal and Mabini Streets, Legazpi City  
4500  
Tel Nos. (052) 480-7039 ; (052) 480-7758  
Banking Hours: Mon - Fri 9am - 5pm

## DARAGA BRANCH

Rizal Street, Daraga, Albay  
Tel Nos.(052) 483-3726 ; (052) 435-2063  
Banking Hours: Mon - Fri 9am - 5pm

## TABACO BRANCH

Ground Floor, N.N. Building, AA Berces street,  
Basud, Tabaco City  
Tel Nos. (052) 487-7122; (052) 830-0328  
Banking Hours: Mon - Fri 9am - 5pm

## POLANGUI BRANCH

National Road, Basud, Polangui, Albay  
Tel Nos. (052) 486-2164; (052) 835-0052  
Banking Hours: Mon - Fri 9am - 5pm

## SORSOGON BRANCH

Rizal Street, Sorsogon City  
Tel Nos. (056) 421-5289;(056) 211-1040  
Banking Hours: Mon - Fri 9am - 5pm

## GUINOBATAN BRANCH

T. Paulate Street, Guinobatan, Albay  
Tel Nos.(052) 484-6664; (052) 838-0113  
Banking Hours: Mon - Fri 9am - 5pm

## DAET BRANCH

Emil 4 Building corner Lukban & Pineapple  
Streets, Daet, Camarines Norte  
Tel Nos. (054) 440-0570; (054) 721-3017  
Banking Hours: Mon - Fri 9am - 5pm

## VIRAC BRANCH

G/F D&L Building, corner Surtida & Rizal Streets,  
San Jose, Virac, Catanduanes 4800  
Tel Nos. (052) 811-0525; 811-0520  
Banking Hours: Mon - Fri 9am - 5pm

## MASBATE BRANCH

Domingo Street, Masbate City  
Tel Nos. (056) 333-5745; (056) 333-5744  
Banking Hours: Mon - Fri 9am - 5pm

## NAGA BRANCH

Panganiban Drive, Naga City  
Tel Nos. (054) 473-5086; (054) 811-5647  
Banking Hours: Mon - Fri 9am - 5pm

# Branch Network

## METRO MANILA

### ALABANG

G/F Unit 4, L. Molito Complex, Madrigal Ave.  
corner Alabang-Zapote Road, Muntinlupa City  
Tel. Nos.: 850-9529 / 772-1565  
Banking Hours: Mon - Fri 9am - 4pm

### ANTIPOLO

Units 3 & 4 FLJ Bldg. 182 P. Oliveros St.,  
Antipolo City  
Tel. Nos.: 630-4241 / 630-4249  
Banking Hours: Mon - Fri 9am - 4pm

### AYALA

6780 G/F JAKA I Bldg., Ayala Ave.,  
Makati City  
Tel. Nos.: 822-7980 / 822-7965  
Banking Hours: Mon - Fri 9am - 4pm

### BETTER LIVING

G/F Triple M Commercial Bldg., Doña Soledad  
Avenue cor. Australia St., Better Living Subd.,  
Parañaque City  
Tel. Nos.: 823-2503 / 823-2510  
Banking Hours: Mon - Fri 9am - 4pm

### BGC-BURGOS CIRCLE

G/F Unit B, The Crescent Park Residences, 30th  
St., cor. 2nd Ave., Bonifacio Global City, Taguig City  
Tel. Nos.: 553-72-04 / 553-72-05  
Banking Hours: Mon - Fri 9am - 4pm

### BINONDO

E.T. Yuchengco Building,  
484 Quintin Paredes St., Binondo, Manila  
Tel. Nos.: 242-4430 / 242-4443  
Banking Hours: Mon - Fri 9am - 4pm

### BONIFACIO GLOBAL CITY

Ground Level, Market Market Mall,  
Bonifacio Global City, Taguig City  
Tel. Nos.: 856-0693 / 856-0694  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

### CALOOCAN

G/F Dona Lolita Bldg., 363 Rizal Avenue Ext.,  
Caloocan City  
Tel. Nos.: 363-4654 / 363-3758  
Banking Hours: Mon - Fri 9am - 4pm

### CHINO ROCES AVE. EXTN

G/F 2308, Natividad Building, Chino Roces  
Avenue, Extension, Makati City  
Tel. Nos.: 345-2014  
Banking Hours: Mon - Fri 9am - 4pm

### D. GUEVARA MANDALUYONG

G/F 50 D. Guevara St., Mandaluyong City  
Tel. Nos.: 531-0855 / 531-1478  
Banking Hours: Mon - Fri 9am - 4pm

### DEL MONTE

G/F EWELL Square Del Monte Ave. cor. Biak-  
na-Bato Quezon City  
Tel. Nos.: 354-8582 / 354-8583  
Banking Hours: Mon - Fri 9am - 4pm

### E. RODRIGUEZ SR. AVENUE

G/F 1166 E. Rodriguez Sr. Ave., New Manila,  
Quezon City  
Tel. Nos.: 571-5745 / 571-6754  
Banking Hours: Mon - Fri 9am - 4pm

### EASTWOOD CITY

G/F IBM Plaza Bldg., Eastwood City, E.  
Rodriguez Jr. Ave., Bagumbayan, Quezon City  
Tel. Nos.: 395-1336 / 395-1337  
Banking Hours: Mon - Fri 9am - 4pm

### EDSA-CALOOCAN

524-F EDSA, Caloocan City  
Tel. Nos.: 921-3600 / 921-3500  
Banking Hours: Mon - Fri 9am - 4pm

### ERMITA

Level 1 Padre Faura Wing, Robinsons Place  
Manila, Ermita, Manila  
Tel. Nos.: 397-7027 / 536-1140  
Banking Hours: Mon - Fri 9am - 6pm; Sat - Sun 10am  
- 6pm

### FILINVEST-ALABANG

Unit 104, Civic Place Condominium, 2301  
Civic Drive, Filinvest Corporate City, Alabang,  
Muntinlupa City  
Tel. Nos.: 659-0493 / 659-0494  
Banking Hours: Mon - Fri 9am - 4pm

# Branch Network

## GAMBOA

G/F Luz Bldg., 116 Gamboa St., Legaspi Village, Makati City  
Tel. Nos.: 892-6801 / 893-9395  
Banking Hours: Mon - Fri 9am - 4pm

## GIL PUYAT AVENUE

G/F New Solid Realty Inc. Bldg., 357 Sen. Gil Puyat Ave., Makati City  
Tel. Nos.: 897-1189 / 897-9440  
Banking Hours: Mon - Fri 9am - 4pm

## KATIPUNAN

G/F Burgundy Place Condominium, Katipunan Ave., Loyola Heights, Quezon City  
Tel. Nos.: 426-2594 / 426-5604  
Banking Hours: Mon - Fri 9am - 4pm

## LAS PIÑAS

Blk. 1 Unit 10-D Metropolitan Classic Homes, J. Aguilar Ave., Las Piñas City  
Tel. Nos.: 875-6875 / 875-6872  
Banking Hours: Mon - Fri 9am - 4pm

## LAS PIÑAS-PAMPLONA

262 Alabang-Zapote Rd., Pamplona, Las Piñas City  
Tel. Nos.: 872-6944 / 872-3016  
Banking Hours: Mon - Fri 9am - 4pm

## MAGNOLIA TOWN CENTER

L/G Unit LG026, Robinsons Magnolia Town Center, Aurora Boulevard, Quezon City  
Tel. Nos.: 961-6040 / 961-6041  
Banking Hours: Mon - Fri 10am - 7pm; Sat - Sun 10am - 6pm

## MAIN OFFICE BRANCH

G/F Galleria Corporate Center, EDSA cor. Ortigas Ave., Quezon City  
Tel. Nos.: 702-9540 / 702-9568  
Banking Hours: Mon - Fri 10am - 7pm; Sat - Sun 10am - 6pm

## MALABON

G/F Exterior, Malabon Citisquare, C4 Rd. cor. Dagat-dagatan Ave., Lonogos Malabon City  
Tel. Nos.: 287-7997 / 287-3635  
Banking Hours: Mon - Fri 9am - 4pm

## MARIKINA

Issachar Bldg II., Bayan-bayanan Ave., Concepcion Uno, Marikina City  
Tel. Nos.: 948-6890 / 948-7121  
Banking Hours: Mon - Fri 9am - 4pm

## NOVALICHES

G/F Robinsons Supermarket, Robinsons Place Novaliches, Quirino Highway, Novaliches, Quezon City  
Tel. Nos.: 935-3409 / 935-3412  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

## N.S. AMORANTO SR. AVE.

G/F Unit 102 "R" Place Bldg., #255 N.S. Amoranto Sr. Ave., Quezon City  
Tel. Nos.: 521-0997 / 521-0936  
Banking Hours: Mon - Fri 9am - 4pm

## ORTIGAS-GREENHILLS

G/F Limketkai Bldg., Ortigas Ave., Greenhills, San Juan City  
Tel. Nos.: 726-3360 / 725-6390  
Banking Hours: Mon - Fri 9am - 4pm

## PASEO DE ROXAS LEGASPI VILLAGE

137 G/F 111 Paseo de Roxas Bldg., Legaspi St., cor. Paseo de Roxas, Legaspi Village, Makati  
Tel. Nos.: 804-2611 / 804-2624  
Banking Hours: Mon - Fri 9am - 4pm

## PADRE RADA TONDO

580 - 584 Padre Rada St., Tondo, Manila  
Tel. Nos.: 243-9004 / 243-8969  
Banking Hours: Mon - Fri 9am - 4pm

## PASIG

L/G Robinsons Metro East, Marcos Highway, Barangay De la Paz, Pasig City  
Tel. Nos.: 345-2043 / 249-1173  
Banking Hours: Mon - Fri 10am - 7pm; Sat - Sun 10am - 6pm

## PASIG C. RAYMUNDO

G/F Marius Arcadia Bldg., C. Raymundo Ave., cor. Pag-asa St., Pasig City  
Tel. Nos.: 345-2067 / 477-5949  
Banking Hours: Mon - Fri 9am - 4pm

### PIONEER- CYBERGATE

Upper G/F, Robinsons Pioneer Cybergate Center  
1, Pioneer St., Mandaluyong City  
Tel. Nos.: 395-2749 / 395-2732  
Banking Hours: Mon - Fri 9am - 4pm

### ROOSEVELT AVENUE

G/F MCCM Bldg. 311 Roosevelt Ave., San  
Francisco Del Monte, Quezon City  
Tel. Nos.: 376-5672 / 709-8213  
Banking Hours: Mon - Fri 9am - 4pm

### SAN MIGUEL

G/F Octagon Bldg., San Miguel Ave., Ortigas  
Center, Pasig City  
Tel. Nos.: 637-6165 / 636-3074  
Banking Hours: Mon - Fri 9am - 4pm

### SEDEÑO SALCEDO VILLAGE

G/F, Unit G-104, 88 Corp. Center  
#141 Sedeño corner Valero St., Makati City  
Tel. Nos.: 551-4194 / 550-2262  
Banking Hours: Mon - Fri 9am - 4pm

### SHAW BLVD

G/F 2019, Pelbel Bldg. I Shaw Boulevard, Pasig City  
Tel. Nos.: 570-19-20 / 570-23-91  
Banking Hours: Mon - Fri 9am - 4pm

### TOMAS MORATO

JSB Bldg., Tomas Morato Ave., cor. Scout  
Delgado St., Quezon City  
Tel. Nos.: 412-7980 / 412-7981  
Banking Hours: Mon - Fri 9am - 4pm

### VALENZUELA

Unit A South Supermarket, Mc Arthur Highway,  
Karuhatan, Valenzuela City  
Tel. Nos.: 293-9629 / 294-0562  
Banking Hours: Mon - Fri 9am - 4pm

### WEST AVENUE

G/F, Prosperity West Center Bldg. 92 A West  
Avenue, Quezon City  
Tel. Nos.: 332-3998 / 332-7954  
Banking Hours: Mon - Fri 9am - 4pm

## PROVINCIAL

### ANGELES

Level 1 Robinsons Place Angeles, Mc Arthur  
Highway, Balibago, Angeles City, Pampanga  
Tel. Nos.: 045-892-8052 / 045-892-8053  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

### BACOLOD

Level 1 C2002 Robinsons Place - Bacolod,  
Lacson St., Mandalagan, Bacolod City  
Tel. Nos.: 034-441-2372 / 034-441-2494  
Banking Hours: Mon - Fri 10am - 7pm; Sat - Sun 10am  
- 6pm

### BAGUIO

LG/F ECCO Bldg., #43 Assumption Road cor.  
Gen. Luna Rd., Baguio City  
Tel. Nos.: 074-443-8313 / 074-443-8314  
Banking Hours: Mon - Fri 9am - 4pm

### BAIS

Stall No. 1, Bais Commercial Center, Marina  
Bldg., Aguinaldo St., National Highway, Bais  
City, Negros Oriental  
Tel. Nos.: 035-402-3026 / 035-402-3028  
Banking Hours: Mon - Fri 9am - 4pm; Sat 9am - 2pm

### BALAGTAS

G/F 103-1 Balagtas Town Center, Mc Arthur  
Highway, Borol 1st, Balagtas, Bulacan  
Tel. Nos.: 044-693-2079 / 044-693-3741  
Banking Hours: Mon - Fri 9am - 4pm

### BATANGAS CITY

G/F Odeste Bldg., P. Burgos St.,  
Brgy. 15, Batangas City  
Tel. Nos.: 043-723-9972 / 043-723-5113  
Banking Hours: Mon - Fri 9am - 4pm

### CABANATUAN

G/F NE Pacific Mall, KM 111 Maharlika Highway,  
Cabanatuan City  
Tel. Nos.: 044-600-2050 / 044-600-2238  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

### CAGAYAN DE ORO

Level 1, Robinsons Supercenter, Rosario St.,  
Lim Ket Kai Drive, Lapasan, Cagayan de Oro  
Tel. Nos.: 088-857-4143 / 088-857-4168  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

# Branch Network

## CALAPAN

G/F, Space # LS-008, NEO Calapan Mall,  
Calapan City, Oriental Mindanao  
Tel. Nos.: 043-441-0027 / 043-441-0028  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

## CALASIAO

Level 1, 01134 Robinsons Place Pangasinan,  
Mc Arthur Highway, Brgy. San Miguel,  
Calasiao, Pangasinan  
Tel. Nos.: 075-517-2616 / 075-517-3202  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

## CEBU-CYBERGATE

G/F Robinsons Cybergate, Don Gil Garcia cor. J.  
Llorente St., Capitol Site, Cebu City  
Tel. Nos.: 032-236-0271 / 032-238-6304  
Banking Hours: Mon - Fri 9am - 4pm

## CEBU-MANDAUE

G/F Cotiaoking Bldg., North Rd., Tabok,  
Mandaue City, Cebu  
Tel. Nos.: 032-346-6452 / 032-346-6970  
Banking Hours: Mon - Fri 9am - 4pm

## CEBU-OSMEÑA

2<sup>ND</sup> Level Robinsons Place Cebu, Fuente  
Osmeña Ave., Cebu City  
Tel. Nos.: 032-253-1370 / 032-253-8857  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

## DAGUPAN

Guanzon Bldg., Perez Blvd., Dagupan City  
Tel. Nos.: 075-522-7444 / 075-515-2252  
Banking Hours: Mon - Fri 9am - 4pm

## DASMARIÑAS

G/F Robinsons Place Dasmariñas, E. Aguinaldo  
Hi-way cor. Governor's Drive Pala-pala,  
Dasmariñas, Cavite City  
Tel. Nos.: 046-852-2217 / 046-852-2216  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

## DAVAO

Door 1 & 2, Edward V. A. Lim Bldg.,  
Sta. Ana Ave., Davao City  
Tel. Nos.: 082-227-8054 / 082-226-3565  
Banking Hours: Mon - Fri 9am - 4pm

## DAVAO-CYBERGATE

Level 1, Unit 109, Robinsons Cybergate Davao,  
J. P. Laurel Ave., Davao City  
Tel. Nos.: 082-305-4990 / 082-305-3875  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

## DUMAGUETE

Stall AF 25-27 Robinsons Dumaguete,  
Dumaguete South Road cor. Perdices St.,  
Dumaguete City  
Tel. Nos.: 035-421-1748 / 035-421-0740  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

## GENERAL SANTOS

Robinsons Place General Santos, cor. J.  
Catolico Ave. and Bula-Lagao Rd., General  
Santos City  
Tel. Nos.: 083-301-3579 / 083-301-8623  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

## KABANKALAN

G/F NZ Building Center (NZBC) Building,  
JY Perez Hi-way, Kabankalan City, Negros  
Occidental  
Tel. Nos.: 034-471-0052/034-471-0053  
Banking Hours: Mon - Fri 9am - 4pm; Sat 9am - 2pm

## ILOCOS NORTE

G/F Space No. 123, Robinsons Ilocos Norte,  
Valdez Center, Brgy. 1, San Nicolas, Ilocos Norte  
Tel. Nos.: 077-781-2595 / 077-781-2794  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am  
- 3pm

## ILOILO

G/F Robinsons Place Iloilo,  
Mabini Street, Iloilo City  
Tel. Nos.: 033-336-9625 / 033-336-9637  
Banking Hours: Mon - Fri 10am - 7pm; Sat - Sun 10am  
- 6pm

## IMUS

G/F Robinsons Place Imus, Emilio Aguinaldo  
Highway, Imus, Cavite City  
Tel. Nos.: 046-875-2331 / 046-875-2333  
Banking Hours: Mon - Fri 10am - 7pm; Sat - Sun 10am  
- 6pm

#### LIPA

G/F Robinsons Place Lipa, Expansion Wing, J.P. Laurel Hiway, Mataas na Lupa, Lipa City  
Tel. Nos.: 043-756-2240 / 043-312-2057  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

#### LUCENA

G/F AZDEMARK Bldg., #11 Quezon Avenue, Lucena City  
Tel. Nos.: 042-322-0082 / 042-322-0083  
Banking Hours: Mon - Fri 9am - 4pm

#### LUISITA TARLAC

Unit 102 Robinsons Luisita, Mac Arthur Highway, San Miguel, Tarlac City  
Tel. Nos.: 045-985-2001 / 045-985-2002  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

#### MALOLOS

C-101 G/F, Rufina Commercial Bldg., Catmon, Malolos City, Bulacan  
Tel. Nos.: 044-796-1635 / 044-796-1636  
Banking Hours: Mon - Fri 9am - 4pm

#### MEYCAUAYAN

G/F EMCCO Bldg., Mc Arthur Highway cor. Malhacan Rd., Calvario, Meycauayan City, Bulacan  
Tel. Nos.: 044-721-2712 / 044-721-2713  
Banking Hours: Mon - Fri 9am - 4pm

#### NAGA

G/F Crown Hotel Bldg., Peña Francia Ave., Naga City  
Tel. Nos.: 054-811-1600 / 250-8180  
Banking Hours: Mon - Fri 9am - 4pm

#### OZAMIZ

G/F Ozamis Insular Life Bldg., Don Anselmo Bernard Avenue Cr. Angel Medina Ave. Ozamiz City, Misamis Occidental  
Tel. Nos.: 088-564-0549 / 088-564-0551  
Banking Hours: Mon - Fri 9am - 4pm

#### PALAWAN

Unit 220-222, 2/F, Robinsons Place Palawan Mall, Puerto Princesa City, Palawan  
Tel. Nos.: 048-433-0054 / 048-433-0055  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

#### PASSI

G/F, Unit G5-G6, Gaisano Capital Passi, Simeon Aguilar St., Passi, Iloilo  
Tel. Nos.: 033-536-7041 / 033-536-7042  
Banking Hours: Mon - Fri 9am - 4pm; Sat 9am - 2pm

#### SAN FERNANDO

Level I Robinsons Starmills, Candaba Gate, Olongapo-Gapan Rd., San Jose, San Fernando City, Pampanga  
Tel. Nos.: 045-636-3586 / 045-636-3587  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

#### SAN PABLO

Lopez Jaena St. cor. Burgos St., Colago Ave., San Pablo City, Laguna  
Tel. Nos.: 049-562-1043 / 049-562-0711  
Banking Hours: Mon - Fri 9am - 4pm

#### SAN PEDRO

Kilometer 31, National Highway, Brgy. San Vicente, San Pedro, Laguna  
Tel. Nos.: 02- 520-1869 / 02-520-1991  
Banking Hours: Mon - Fri 9am - 4pm

#### STA. ROSA

Level 1 Robinons Sta. Rosa Market, Old National Highway, Bo. Tagapo, Sta. Rosa City, Laguna  
Tel. Nos.: 049-837-1693 / (02) 520-8527  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

#### TACLOBAN

Level 1 – Stall 150, Robinsons Place Tacloban, Marasbaras, Tacloban City, Leyte  
Tel. Nos.: 053-323-3075 / 053-323-7074  
Banking Hours: Mon - Fri 10am - 4pm; Sat 10am - 3pm

#### TAGAYTAY

Level 2, 00210 Summit Ridge, General Aguinaldo Highway, National Rd., Brgy. Maharlika, Tagaytay City, Cavite  
Tel. Nos.: 046-860-2915 / 046-860-2916  
Wed - Banking Hours: Mon 9am - 4:30pm

#### URDANETA

G/F S. Plaza Bldg., Mc Arthur Highway, Poblacion, Urdaneta City, Pangasinan  
Tel. Nos.: 075-568-1290 / 075-568-1292  
Banking Hours: Mon - Fri 9am - 4pm

# Offsite ATM

## **RET-Bridgeway**

G/F Robinsons Equitable tower  
Ortigas, Pasig City

## **Galleria (EO)**

17th floor Galleria Corporate Center  
Ortigas Quezon City

## **Digitel Libis 2**

Digitel compound Libis Quezon City

## **RDS Galleria**

Robinsons Dept Store, 2F East Wing  
Entrance, Robinsons Galleria Edsa cor  
Ortigas Ave Quezon City

## **BF Homes**

Aguirre Avenue, BF Homes Paranaque  
City

## **RSC Tandang Sora**

105 RMR Square Mall, Tandang Sora  
Ave., Brgy. Pasong Tamo, Quezon City

## **URC GBF (Rosario)**

Amang Rodriguez Ave Rosario  
Pasig City

## **CFG Park Ave.**

Basement 1 Park Avenue Robinsons  
Galleria

## **RSC Merville**

Robinsons Supermarket, Edison Ave.  
cor. West Service Rd, Brgy Merville,  
Parañaque City

## **RSC Pulilan**

Robinsons Mall, Doña Remedios  
Trinidad Hi-way, Pulilan Junction, Bgy.  
Cutcot, Pulilan, Bulacan

## **RSC Nuvali**

Robinsons Supermarket Nuvali,  
Tagaytay Rd. Sta. Rosa, Laguna

## **RSC Malolos**

Robinsons Supermarket, Bulacan State  
University grounds, McArthur Highway,  
Guinhawa, Malolos, Bulacan

## **RSC Pacita**

Robinsons Supermarket, Block 6 lot  
3-A Pacita Ave. cor. 2nd St. Pacita  
Complex, San Pedro, Laguna

## **URC 2**

E. Rodriguez Ave. cor Pasig Blvd.,  
Bagong Ilog, Pasig City

## **RSC Graceland**

Robinsons Supermarket Graceland, JP  
Rizal St., Brgy. Malanday,  
Marikina City

## **Domestic 2**

Domestic Road., Cebu Pacific Air  
Office Airport Road Pasay City

## **Ministop Escriba**

B2 L1 Escriba Drive cor. Lukban St.,  
San Antonio, Pasig City

## **Ministop Bansalangan**

995 EDSA cor. Bansalangan St.,  
Veteran's Village, Quezon City

## **Ministop Ibarra**

España Ave. cor. Ibarra St., Sampaloc,  
Manila

## **RSC Mercedes**

Robinsons Supermarket Mercedes,  
Mercedes Ave. Pasig City

## **RSC Meycauayan**

Robinsons Supermarket Meycauayan,  
EMA Town Center, El Camino Rd.,  
Meycauayan, Bulacan

## **RSC Karangalan**

Robinsons Supermarket Karangalan,  
Magsaysay St. cor. Felix Ave.,  
Manggahan, Pasig City

## **St. Francis**

G/F St Francis Square Building,  
Bank Drive cor. Julia Vargas Ave.,  
Mandaluyong City

## **RSC Otis**

1536 Paz M. Guanzon St.,  
831 Zone 90, Paco, Manila

## **EO-Park Ave.**

Basement 1 Park Avenue Robinsons  
Galleria

## **RSC Galleria**

Level 1 Robinsons Galleria,  
Edsa cor. Ortigas Ave., Quezon City

## **URC**

URC Compound, Bagong Ilog,  
Pasig City.

## **Domestic Rd. Airport**

Domestic Road., Cebu Pacific Air  
Office Airport Road Pasay City

## **Digitel Libis**

Digitel compound Libis Quezon City

## **Ministop Galleria**

Robinsons Galleria, Level 1, EDSA, Bo.  
Ugong Norte, Quezon City

## **Ermita 2 (RSC Ermita)**

G/F Robinsons Supermarket  
Robinsons Place Ermita Manila

## **RDS Manila**

G/F Robinsons Dept Store Robinsons  
Place Ermita Manila

## **RDS Imus**

2nd Level Robinsons Dept Store,  
Robinsons Place Imus E.Aguinaldo  
Hiway, Imus Cavite

## **RDS Dasmariñas**

2nd Level Robinsons Dept Store,  
Dasmariñas E.Aguinaldo hiway cor  
Governor's Drive Pala-Pala Dasmariñas  
Cavite

## **OBO Cavite**

2nd level, HBC Bldg., Tejeros  
Convention, Rosario, Cavite

## **URC Cavite**

First Cavite Industrial Estate, Langkaan,  
Dasmariñas, Cavite

## **RSC Gen. Trias**

Robinsons Supermarket, Governor's  
Drive, Gen. Trias, Cavite

## **RDS Metroeast Pasig**

G/F Robinsons Dept Store Robinsons

## **MetroEast Pasig**

Ateneo Katipunan Q. C.  
Kotska Hall, Ateneo de Manila  
University Capitol Hills Quezon City

## **Cybergate Tower 1**

U/G Robinsons Cybergate Center,  
Edsa cor Pioneer St. Mandaluyong City

## **Rockwell**

7th flr., Tower II, Rockwell Business  
Center, Ortigas, Pasig

## **RDS Tutuban**

Robinsons Supermarket G/F Cluster  
bldg. Tutuban Center Manila

**RDS Magnolia**

UGF, Robinsons Dept. Store,  
Robinsons Magnolia Town Center,  
Aurora Blvd., New Manila, Quezon City

**Teleperformance Shaw**

Greenfield District IT Center II, United  
St., Mandaluyong City

**URC Litton**

G/F GBF Bldg., Litton Mills Compound,  
Amang Rodriguez Ave., Rosario, Pasig  
City

**RDS Bacolod**

Level 1 Robinsons Dept Store  
Robinsons Place Bacolod, Lacson St.  
Bacolod City

**Bacolod Tele**

G/F Luxor Plaza IT Magsaysay Ave. cor  
Lacson St. Bacolod City

**Iloilo (USA)**

University of San Agustin Jalandoni St.  
Iloilo City

**RDS Iloilo**

G/F Robinsons Dep Store, Robinsons  
Place Iloilo, Mabini St., Iloilo City

**Iloilo-JB Lacson**

John B Lacson Maritime University Sto  
Nino Sur Arevalo Iloilo City

**JBL Molo**

JB Lacson Foundation Maritime  
University, San Juan St., Molo, Iloilo City

**RSC Molo**

M. H. Del Pilar St., Molo, Iloilo City

**RSC Mactan**

Robinsons Supermarket, Pueblo Verde,  
Mactan Economic Zone II, Patalinghug  
Hi-way, Barangay Basak, Lapu-lapu,  
Cebu City

**RDS Dumaguete**

G/F Robinsons Dept. Store  
Dumaguete, Dumaguete South Road  
cor. Perdices St., Dumaguete City

**RSC Perdices**

Lower G/F, Mart One, Gov. Perdices  
St., Dumaguete City, Negros Oriental

**URSUMCO**

URSUMCO cmpd., National Highway,  
Brgy. Alangilanan, Manjuyod,  
Negros Oriental

**LSB Naga**

Legaspi Savings Bank, Naga Branch,  
Panganiban Drive, Naga City

**PEZA Baguio**

Baguio Economic Zone,  
Loakan Rd., Baguio City

**Magic Mall**

G/F Magic Centerpoint, Zamora St.,  
Dagupan City

**RSC Naga**

G/F Robinsons Supermarket, Nagaland  
E-mall, Elias Angeles St., Naga City,  
Camarines Sur

**OBO Sta. Rosa**

Unit A-9, Banaue de Sta. Rosa Bldg.,  
F. Reyes Rd., Purok 6, Balibago, Sta.  
Rosa, Laguna

**Lipa**

Robinsons Place JP Laurel hiway, Lipa  
City Batangas

**OBO Clark**

G/F Cecille's Bldg, McArthur Highway,  
Balibago, Angeles City, Pampanga

**OBO Subic**

2nd flr. Maritan Bldg., 896 Manila Ave.,  
CBD, SBFEZ, Olongapo, Zambales

**URC Pampanga**

Universal Robina Corporation, Brgy.  
Del Rosario, City of San Fernando,  
Pampanga

**RSC Tagaytay**

Robinsons Supermarket, Summit  
Ridge Tagaytay City Cavite

**RDS Cabanatuan**

2nd Flr. Robinsons Dept. Store, km  
111 MAHARLIKA Hi way Cabanatuan  
Nueva Ecija

**RSC Tarlac**

Robinsons Supermarket - Robinsons  
Luisita Mc Arthur Hi way San Miguel  
Tarlac City

**RSC Balagtas**

Robinsons Supermarket, Balagtas  
Town Center, McArthur Highway, Borol  
1st, Balagtas, Bulacan

**RDS Palawan**

G/F Robinsons Department Store,  
Robinsons Place Palawan Mall, Puerto  
Princesa, Palawan

**RSC CDO**

G/F Big R, Supercenter, Cagayan de  
Oro City

**RSC Gusa**

Robinsons Supermarket, Phase 2,  
Villa Ernesto Subd., National Highway,  
Cagayan de Oro City

**RDS Davao**

2nd Flr Robinsons Department Store,  
Abreeza Mall, J.P. Laurel Ave.,  
Davao City



# Products and Services

## Deposit Products

- Regular Savings and Checking Account
- Tykecoon Kiddie Savings Bank, Cardless
- ATM, Special Savings Account, Peso Time Deposit
- Foreign-Currency Denominated Savings and Time Deposit Accounts

## Consumer Loan

- Home Loan
- Auto Loan
- Personal Loan
- PLP-Secured Loan (against Diamond or Jewelry)
- Microfinance
- Motorcycle Financing

## Commercial Loan Products

- Cash Secured Loan
- Revolving Credit Line
- Medium and Long-term Facilities for small, medium and large industries,
- Receivables Financing,
- Bills Purchased Line for small, medium and large enterprises.

## Treasury Products

- Peso Special Savings
- Peso Sovereign Bonds (Tbills, FXTNs, RTBs)
- Peso Corporate Bonds
- Spot Foreign Exchange for US\$ and Third Currencies (Yuan, Euro, British, Pounds, HK\$, Jap Yen, Sing\$,)
- US\$ Sovereign Bonds (ROPs and Sovereign Bonds)
- US\$ Corporate Bonds

## Trust Products

Unit Investment Trust Fund

Personal Investment **(Peso & US\$)**

Corporate Investment **(Peso & US\$)**

Escrows

Retirement Fund Management

Safekeeping

## Trade Services Products

### Import

- Letter of credit issuance/amendment (Import/Domestic)
- Non-documentary import collection
- Shipment Bond/Shipping Guaranty Issuance
- Trust Receipt Financing
- Duties and Taxes Collection

### Export

- Advising export letter of credit
- Export bills purchase
- Export bills for collection
- Export advances facility

Issuance of Bank Guaranty

## Other Services

### Branch banking services:

- Bills Payment
- Safety Deposit Box
- Bank Settlement Service
- Deposit Pick-up Service

### Electronic Banking Services:

- ATM Service
- Cardless Banking
- CashWeb (Cash Management Service)
- RWeb (Retail Internet Banking)
- Payroll Crediting Service
- Remittance

# JG Summit Businesses

## Food, Agro-Industrial, and Commodities

### Universal Robina Corporation

13 E. Rodriguez Jr. Avenue, Bagong Ilog,  
Pasig City Metro Manila, Philippines 1605  
Tel No.: (632) 635-0751

## Real Estate and Hotels

### Robinsons Land Corporation

Level 2, Galleria Corporate Center,  
EDSA corner Ortigas Avenue,  
Quezon City, Metro Manila, Philippines 1100  
Tel. No.: (632) 397-1888

## Air Transportation

### Cebu Pacific Air

Airline Operations Center Building,  
Manila Domestic Airport Complex,  
Old Domestic Road, Pasay City  
Metro Manila, Philippines 1301  
Tel No.: (632) 702-0888

## Petrochemicals

### JG Summit Petrochemical Corporation

Ground Floor, Robinsons Cybergate Center (Tower 1),  
EDSA corner Pioneer St., Mandaluyong City,  
Metro Manila, Philippines 1550  
Tel. No.: (632) 395-2674 / (632) 667-3113  
Plantsite: Bo. Simlong, Batangas City  
Philippines 4200  
Tel. No.: (6343) 300-8000 to 01

## Banking Services

### Robinsons Banking Corporation

17th Floor, Galleria Corporate Center,  
EDSA corner Ortigas Avenue, Quezon City,  
Metro Manila, Philippines 1100

## Core Investments

### Philippine Long Distance Telephone (PLDT)

Ramon Cojuangco Building,  
Makati Ave., Makati City  
Metro Manila, Philippines 1200  
Tel No.: (632) 888-8171 to 173

### United Industrial Corporation (UIC)

24 Raffles Place, #22-01/06, Clifford Center,  
Singapore 048621  
(65) 622-0135-2

## Partner Companies

### Summit Media

6F & 7F Robinsons Cybergate Center (Tower 3),  
Robinsons Pioneer Complex, Pioneer St.,  
Mandaluyong City, Metro Manila, Philippines 1550  
Tel. No.: (632) 451-8888

### JobStreet.com Philippines, Inc.

20th Floor Cybergate Center Tower 3,  
Robinson's Pioneer Complex,  
Pioneer Street, Mandaluyong City 1550  
Tel. No. : (632) 286-6222

### Robinsons Retail Group

10 E. Rodriguez Jr. Ave., Libis Quezon City,  
Metro Manila, Philippines  
Tel. No.: (632) 635-0751

### i-Tech Global Business Solutions Inc

3rd Floor, Robinsons Otis, 1536 P. Guazon St.,  
Paco, Manila, Philippines 1007  
Tel. No.: (632) 249-4305

**ROBINSONSBANK**



17F Galleria Corporate Center, EDSA corner Ortigas Avenue, Quezon City  
+63 2 702 9500  
[www.robinsonsbank.com.ph](http://www.robinsonsbank.com.ph)