COVER SHEET

						P	W	6	8	6

S.E.C. Registration Number

PHILIPPINE BANK OF
COMMUNICATIONS

(Company's Full Name)

PBCOM TOWER 6795 AYALA
AVE. RUFINO ST. MAKATI
CITY

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

JOVITA D.S. LARRAZABAL

Contact Person

830-7061

Company Telephone Number

1	2		3	1

Month *Day*

Fiscal Year

SEC Form 17 – C
(Additional Information)

FORM TYPE

April 7

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2(c) THEREUNDER

I.C.T.D. S
3 APR 3 0 2014 E
BY
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS C

1. Date of Report (Date of earliest event reported): April 28, 2014

2. SEC Identification Number : PW - 686

3. BIR Tax Identification No. : 000-263-340-000

4. PHILIPPINE BANK OF COMMUNICATIONS
   Exact name of issuer as specified in its charter

5. Philippines
   Province, country or other jurisdiction of incorporation

6. (SEC Use Only)
   Industry Classification Code:

7. PBCOM TOWER, 6795 Ayala Avenue corner Herrera Street, Makati City 1226
   Address of principal office Postal Code

8. 632-830-7000
   Issuer's telephone number, including area code

9. ....
   Former name or former address, if changed since last report

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	299,564,555 shares

11. Indicate the item numbers reported herein: 9. Other Events.

Further to our disclosure dated April 25, 2014, please see enclosed additional information on the Bank's acquisition of Banco Dipolog, Inc. ("BDI").

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PHILIPPINE BANK OF COMMUNICATIONS

By:

28 April 2014

JOVITA D.S. LARRAZABAL
Corporate Secretary

PSE Disclosure Form for Material Acquisitions

Subject of the Disclosure	Acquisition of Shares of Stock of Another Corporation
Background/Description of the Disclosure	The Philippine Bank of Communications (PBCOM) acquired a controlling interest in Banco Dipolog, Inc. (BDI)
Date of Approval by the Board of Directors	February 26, 2014
Date of Approval by the Stockholders	N/A
Other relevant regulatory Agency, if any	Bangko Sentral ng Pilipinas
Date of Approval of relevant regulatory agency	TBA
Rationale for the transaction including the benefits which are expected to be accrued to the Issuer as a result of the transaction	The acquisition of BDI is in line with PBCOM's plans to expand its market reach and engage in countryside lending.
Description of the transaction including the timetable for implementation and related regulatory requirements, if any	The acquisition covers the controlling interest of BDI. In compliance with the regulations of the Bangko Sentral ng Pilipinas (BSP), PBCOM will submit the acquisition to the BSP for its approval as soon as possible.

Identities of parties to the transaction		
Name	**Nature of Business**	**Nature of any material relationship with the Issuer, their directors/officers or any of their affiliates**
PBCOM	Commercial banking	Issuer
Various stockholders of BDI	Not applicable	None.

Details of the acquisition	
Date	April 25, 2014
Manner	Acquisition of equity
Description of the company to be acquired	Founded in 1957, BDI was the first bank to open in Dipolog. It currently has 11 branches and 7 other banking offices located in Mindanao and the Visayas, and is set to open 2 more branches in the region by July 2014. BDI caters primarily to small entrepreneurs, educators, farmers and government employees. As of December 2013, BDI had over P1 Billion in total assets.
Discussion of major projects and investments	BDI has the following major projects: 1. Opening of 2 more branches in Mindanao within 3Q 2014. 2. Consolidation with 1 recently-acquired rural bank pending with the BSP and the Philippine Deposit Insurance Corporation for approval.

List of subsidiaries and affiliates, with percentage of holdings of BDI	
Name	% of ownership
None.	N/A

The terms and conditions of the transaction	
Number of shares to be acquired	898,933
Percentage to the total outstanding shares of the company subject of the transaction	90%
Price per share	Php500.59
Nature and amount of consideration given or received	Cash; Php450M
Principle followed in determining the amount of consideration	The consideration was computed based on the outcome of the due diligence conducted.
Terms of payment	Cash, payable upon BSP approval
Conditions precedent to closing of the transaction, if any.	The acquisition is subject to the approval of the Bangko Sentral ng Pilipinas.
Any other salient terms	None
Identity of the person(s) from whom the assets were acquired	Controlling shareholders of BDI.

AUDITED FINANCIAL STATEMENTS
As of December 31, 2013

BANCO DIPOLOG, INC
A RURAL BANK

YEARS ENDED DECEMBER 31, 2013 AND 2012

EDGAR D. ESPARAGUERA
CPA No. 42569
PTR No. 42889915 01-09-2014
BOA Acc. No. 2665- 12-31-2014
BSP Acc. Dtd. 02-08-2014

March 20, 2014
Dipolog City

208 A and B Subdivision
Turno, Dipolog City

DR. EDGAR D. ESPARAGUERA **CERTIFIED PUBLIC ACCOUNTANT**

ESPARAGUERA ACCOUNTING OFFICE
A and B Subdivision, Turno, Dipolog City
Tel No. 065 212-1185 / 065 212-4205
Cell No. 0998-455-2562/0999-850-7415
Email add: edgardesparaguera@yahoo.com

PRC-CPA NO. 42509
BOA Acc. No. 2665-12-31-2014
BSP Accreditation: 02-08-2015
CDA Acc. No. 0557-3-14-2014

"INDEPENDENT AUDITOR'S REPORT"

TO THE BOARD OF DIRECTORS
BANCO DIPOLOG, INC. A RURAL BANK
Rizal Avenue, Dipolog City

Report on the Financial Statement

I have audited the accompanying financial statements of BANCO DIPOLOG, INC. A RURAL BANK which comprise the balance sheet as of December 31, 2013, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidences about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, 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.

I believe that our audit evidence we have obtained is sufficient and appropriate to provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of as of BANCO DIPOLOG, INC. A RURAL BANK as of December 31, 2013 and of its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

EDGAR D. ESPARAGUERA
CPA No. 42569
PTR No. 42889915 01-09-2014
BOA Acc. No. 2665- 12-31-2014
CDA Acc. No. 0557-3-14-2014

March 20, 2014
Dipolog City

DR. EDGAR D. ESPARAGUERA — CERTIFIED PUBLIC ACCOUNTANT

ESPARAGUERA ACCOUNTING OFFICE
A and B Subdivision Turno Dipolog City
Tel No: 065 212-1185 · 065 212-4205
Cel No: 0908-455-2562/0999-830-7418
Email add: [illegible]

PRC-CPA N.O. 42569
BOA Acc No. 2665-12-31-2014
BSP Accreditation 02-08-2015
CDA Acc. No. 0557-3-14-2014

TO THE SECURITIES AND EXCHANGE COMMISSION:

In connection with my examination of the consolidated financial statements of **BANCO DIPOLOG, INC.** which are to be submitted to the Commission, I hereby represent the following:

1. That I am in the active practice of the accounting profession and duly registered with the Board of Accountancy.
2. The said financial statements are presented in conformity with generally accepted accounting principles in all cases where I shall express an unqualified opinion, except that in cases of any departure from such principles, I shall indicate the nature of the departure, the effects thereof, and the reasons why the principles would result in a misleading statement, if such is a fact;
3. That I shall fully meet the requirements of independence as provided in section 8 of the Code of Ethics for Professional Accountants in the Philippines;
4. That in the conduct of the audit, I shall comply with the generally accepted auditing standards promulgated by the Board of Accountancy. In case of any departure from such standards or any limitations in the scope of my examination, I shall indicate the nature of the departure and the extent of the limitation, the reasons therefore and the effects on the expression of my opinion or which may necessitate the negation of an opinion; and
5. That I shall comply with the applicable rule and regulation of the Securities and Exchange Commission in the preparation and submission of the financial statements.
6. That relative to the expression of my opinion on the said financial statements, I shall not commit any act discreditable to the profession in the Code of Ethics for Professional Accountants in the Philippines.

As a CPA engaged in public practice, I make these representation in my individual capacity

EDGAR D. ESPARAGUERA, SR
PTR No. 42889915 01-09-2014
PRC-CPA N.O. 42569
BSP Accredited External Auditor dtd 02-08-2015
PRC BOA Reg. No. 2665-12-31-2014
CDA CEA No. No. 0557-3-14-2014

DR. EDGAR D. ESPARAGUERA **CERTIFIED PUBLIC ACCOUNTANT**

ESPARAGUERA ACCOUNTING OFFICE
[illegible] Subdivision, Turno, Dipolog City
Tel. No. 065-212-1188 / 065-212-4205
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Email add: [illegible]@yahoo.com

PRC-CPA N.O. 42569
BOA Acc. No. 2665-12-31-2014
BSP Accreditation 02-08-2015
CDA Acc. No. 0557-3-14-2014

SUPPLEMENTAL WRITTEN STATEMENT

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS
BANCO DIPOLOG, INC., A RURAL BANK
Rizal Avenue, Dipolog City

I have examined the Financial Statements of BANCO DIPOLOG, INC. A RURAL BANK for the year ended December 31, 2013 on which I have rendered the attached report dated March 20, 2014.

In compliance with SRC Rule 68, I am stating the said company has a total number of ONE HUNDRED THIRTY FIVE (135) stockholders owning more than one hundred common shares.

EDGAR D. ESPARAGUERA, SR
PTR No. 4288991 5 01-09-2014
PRC-CPA N.O. 42569
BSP Accredited External Auditor dtd 02-08-2015
PRC BOA Reg. No. 2665-12-31-2014
CDA CEA No. No. 0557-3-14-2014

March 20, 2014

Dipolog City

BANCO DIPOLOG, INC. A RURAL BANK
Rizal Avenue, Dipolog City

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of BANCO DIPOLOG, INC. A RURAL BANK is responsible for the preparation and fair presentation of the Comparative Financial Statements for the years ended December 31, 2013 and 2012 in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

In this regard management maintains a system of accounting and reporting which provides for necessary internal controls to ensure that transactions are properly authorized and recorded assets are safeguarded against unauthorized use or disposition and liabilities are recognized. Management has disclosed to the audit committee and to its External Auditor significant deficiencies and weakness to internal control and fraud committed by employees.

The Board of Directors reviews the comparative financial statements before such statements are approved and submitted to the stockholders of BANCO DIPOLOG, INC. A RURAL BANK.

EDGAR D. ESPARAGUERA, SR. the Independent Auditor and appointed by the Board of Directors has examined the comparative financial statements of BANCO DIPOLOG, INC. A RURAL BANK in accordance with generally accepted auditing standards and has expressed its opinion on the fairness of presentation upon completion of such examination in its report to the Board of Directors and Stockholders.

JUDE MARTIN RAYMUND B. SAGUIN
President/Chairman of the Board

JANICE C. VELASCO
Treasurer

SUBSCRIBED AND SWORN TO before me this day of ____________ at ____________ exhibiting to me their Community Tax Certificate No. ____________ issued on ____________ at ____________ and Community Tax Certificate No. ____________ issued on ____________ at ____________.

Doc No. ______
Page No. ______
Book No. ______
Series of 2014

BANCO DIPOLOG, INC. A RURAL BANK

Rizal Avenue, Dipolog City

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL TAX RETURN

The management of **BANCO DIPOLOG, INC. A RURAL BANK** is responsible for all information and representations contained in the Annual Tax Return for the years ended December 31, 2013. Management is likewise responsible for all information and representations contained in the financial statements accompanying the (Annual Income Tax Return or Annual Information Return) covering the same reporting period. Further, the Management is responsible for all information and representations contained in all other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns and any and all other tax returns.

In this regard, the Management affirms that the attached financial statements for the year ended December 31, 2013 and accompanying Annual Income Tax Return are in accordance with the books and records of BANCO DIPOLOG, INC. A RURAL BANK, complete and correct in all material respects. Management likewise affirms that:

1. The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

2. Any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with Revenue Regulations and other relevant issuance;

3. That BANCO DIPOLOG, INC. A RURAL BANK has filed all applicable tax returns, report and statements required to be filed under Philippine tax laws for th reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

JUDE MARTIN RAYMUND B. SAGUIN	JANICE C. VELASCO
President	Treasury Head

EDGAR D. ESPARAGUERA CERTIFIED PUBLIC ACCOUNTANT
ESPARAGUERA ACCOUNTING OFFICE
A and B Subdivision, Turno, Dipolog City
Tel No. 065 212-1185 / 065 212-4205
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Email add: edgardesparaguera@yahoo.com

PRC CPA NO. 42569
BOA Acc. No. 2665-12-31-2014
BSP Accreditation 02-18-2015
CDA Acc. No. 0557-3-14-2014

BANCO DIPOLOG, INC. A RURAL BANK
Rizal Avenue, Dipolog City

Comparison of Audited Financial Statements and Submitted
Consolidated Statement of Condition and Operations
As of December 31, 2013

	Audited FS	Submitted Report	Discrepancy	Reasons for Discrepancy
Cash and Cash Equivalents	11,916,792.87	11,916,792.87		
Due from Bangko Sentral ng Pilipinas	15,776,319.61	15,776,319.61		
Due from Other Banks	124,905,872.92	124,905,872.92		
Loans and Receivable - Net	811,224,983.86	811,224,983.86		
Property and Equipment - Net	89,104,645.87	89,104,645.87		
ROPA - Net	11,140,248.13	11,140,248.13		
Other Assets	22,936,054.31	22,936,054.31		
Total Assets	1,087,004,917.57	1,087,004,917.57		
Deposit Liabilities	597,323,957.08	597,323,957.08		
Other Liabilities	142,974,759.35	142,974,759.35		
Total Liabilities	740,298,716.43	740,298,716.43		
Total Capital Accounts	346,706,201.14	346,706,201.14		
Total Liabilities and Capital	1,087,004,917.57	1,087,004,917.57		
Total Income	195,387,237.36	195,387,237.36		
Total Expenses	158,965,274.67	158,965,274.67		
Net Income Before Tax	36,421,962.69	36,421,962.69		

EDGAR D. ESPARAGUERA
CPA No. 42569
PTR No. 42889915 01-09-2014
BOA Acc. No. 2665- 12-31-2014
CDA Acc. No. 0557-3-14-2014

BANCO DIPOLOG, INC. A RURAL BANK

Rizal Avenue, Dipolog City

CONSOLIDATEDSTATEMENT OF FINANCIAL CONDITION

As of Decemer 31, 2013 and 2012

ASSETS

	Notes	2013	2012
CURRENT ASSETS			
Cash and Cash Equivalents	5	11,916,792.87	21,044,776.04
Due from Bangko Sentral ng Pilipinas	6	15,776,319.61	13,245,028.66
Due from Other Banks	7	124,905,872.92	114,779,748.28
Loans and Receivable- Net	8	811,224,983.86	679,090,348.18
Total Current Assets		*963,823,969.26*	*828,159,901.16*
NON-CURRENT ASSETS			
Bank Premises, Furniture, Fixture and Equipment-Net	9	89,104,645.87	94,563,485.32
Real and Other Properties Acquired -Net	10	11,140,248.13	7,039,968.26
Other Assets	11	22,936,054.31	12,734,795.24
Total Non-Current Assets		*123,180,948.31*	*114,338,248.82*
TOTAL ASSETS		1,087,004,917.57	942,498,149.98

LIABILITIES AND MEMBERS EQUITY

	Notes	2013	2012
LIABILITIES			
Deposit Liabilities	12	597,323,957.08	511,550,574.77
Bills Payable	13	104,531,962.07	81,702,274.61
Current Taxes Liability	14	5,268,431.17	3,940,715.34
Other Current Liabilities	15	33,174,366.11	8,668,877.84
TOTAL LIABILITES		740,298,716.43	605,862,442.56

MEMBERS' EQUITY

	Notes	2013	2012
EQUITY			
Paid up Capital	16	99,920,900.00	99,920,900.00
Surplus/Surplus Reserve	16	221,696,434.49	116,704,873.82
Retained Earnings	16	25,088,866.65	120,009,933.60
TOTAL EQUITY		346,706,201.14	336,635,707.42
TOTAL LIABILITIES AND MEMBERS' EQUITY		1,087,004,917.57	942,498,149.98

(See Notes to Financial Statement)

BANCO DIPOLOG, INC. A RURAL BANK

Rizal Avenue, Dipolog City

CONSOLIDATED STATEMENT OF OPERATION

For the Year Ended December 2013 and 2012

INTEREST INCOME	Notes	2013	2012
Loans	17	164,425,447.04	148,821,894.37
Bank Deposit	18	635,242.08	736,505.54
Total Interes t Income		165,060,689.12	149,558,399.91
INTEREST EXPENSE			
Deposit Liabilities	19	13,774,479.26	17,129,410.92
Bills Payable and Other Borrowings		3,486,571.65	3,139,647.75
Total Interest Expense		17,261,050.91	20,269,058.67
NET INTEREST INCOME		147,799,638.21	129,289,341.24
NON-INTEREST INCOME			
Service Charges, Fees and Commissions	20	20,147,843.76	17,180,219.16
Miscellaneous		10,178,704.48	8,984,668.59
Total Non-interest Income		30,326,548.24	26,164,887.75
NET PROFIT BEFORE NON-INTEREST EXPENSE		178,126,186.45	155,454,228.99
NON-INTEREST EXPENSES			
Salaries and Wages and other Benefits		31,371,527.61	27,777,291.95
Management and Other Professional Fees		2,188,594.85	1,684,215.22
Banking Fees/Supervision and Examination Fee		231,758.25	153,416.16
Taxes and Licenses	21	10,701,283.26	9,532,128.09
Depreciation and Amortization	22	14,884,874.92	12,701,939.73
Insurance		1,938,001.91	1,656,120.13
Litigations/ Assets Acquired Expenses		2,089,463.00	1,025,448.80
Bad Debts Written Off			2,140,024.63
Other Operating Expenses		78,298,719.96	64,409,742.77
Total Non-Interest Expense		141,704,223.76	121,080,327.48
NET PROFIT BEFORE INCOME TAX		36,421,962.69	34,373,901.51
Income Tax Expense	23	10,798,948.92	10,158,725.49
NET PROFIT		25,623,013.77	24,215,176.02

(See Notes to Financial Statement)

BANCO DIPOLOG, INC. A RURAL BANK

Rizal Avenue, Dipolog City

STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 2013

(With Comparative Figures for 2012)

	Notes	Common Stock	Preferred Stock	Surplus Free/ Reserves	Undivided Profit	Total
Balances, January, 1 2012		99,881,400.00	39,500.00	126,693,803.82	51,146,529.87	277,761,233.69
Cash Dividend				(9,988,930.00)		[illegible]
Prior Period Adjustment					44,646,227.71	[illegible]
Net Income, 2012					24,215,176.02	24,215,176.02
Balances, December 31, 2012		99,881,400.00	39,500.00	116,704,873.82	120,009,933.60	336,635,707.42
Balance, January 1	P	99,881,400.00	39,500.00	116,704,873.82	120,009,933.60	336,635,707.42
Issuance of Capital Stock						
Transfer of UP to Surplus				116,553,773.18	(116,553,773.18)	
Cash Dividend				(4,994,860.00)		(4,994,860.00)
Prior Period Adjustment				(6,567,352.51)	(3,990,307.54)	[illegible]
Net Income					25,623,013.77	25,623,013.77
Balance, December 31	P	99,881,400.00	39,500.00	221,696,434.49	25,088,866.65	[illegible]

BANCO DIPOLOG INC., A RURAL BANK, INC.
Rizal Avenue, Dipolog City

STATEMENT OF CASH FLOWS

For period ending December 31, 2013

(With Comparative Figures for 2013)

	2013	2012
CASH FLOW FROM OPERATING ACTIVIES		
Net Profit Before Tax	36,421,962.69	34,373,901.51
Adjustment to reconcile net income to net cash provided by operating activities		
Net Cash proided by Operating Activities		
Depreciation	14,884,874.92	12,701,939.73
Bad Debts		2,140,024.63
(Increase) Decrease in Loans and Receivable	(133,653,971.92)	(96,076,314.94)
Increase (Decrease) in Deposit Liabilities	85,773,382.31	39,797,270.73
Increase (Decrease) in Bills Payable	22,829,744.45	56,348,411.80
Increase (Decrease) in Current Tax Liability	(10,798,948.92)	(868,385.59)
Payment / Provision for Income Taxes		(779,085.68)
(Increase) Decrease in Other Resources	(5,663,577.63)	(8,981,419.21)
Increase (Decrease) in Other Liabilities	28,667,609.04	6,232,4[illegible]
Net Adjustments	2,039,112.25	10,514,905.42
Net Cash Flow Provided by Operating Activities	38,461,074.94	44,888,806.93
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in Bank Premises, Furniture, Fixture and Equipment	(6,590,766.49)	(10,094,974.31)
Increase in Real & Other Properties Acquired	(4,107,777.47)	(1,533,130.39)
(Increase) Decrease in Due from BSP	(2,531,290.93)	(8,937,664.50)
(Increase) Decrease in Due from Other Banks	(10,126,124.64)	(28,890,724.63)
Net cash provided by investing activities	(23,355,959.53)	(49,456,493.83)
CASH FLOWS FROM A FINANCING ACTIVITY		
Payment of Dividends	(4,994,860.00)	(9,988,930.00)
Issuance of Common Stock		
Undivided Profits	(19,238,238.58)	7,409,735.71
Net Cash Flow Provided by Financing Activities	*(24,233,098.58)*	*(2,579,194.29)*
Net increase in cash and cash equivalents	(9,127,983.17)	(7,146,881.19)
Cash and cash equivalents at beginning year	21,044,776.04	28,191,657.23
Cash and cash equivalents at end year	11,916,792.87	21,044,776.04

Cash and Other Cash Items is Composed of:

	2013	2012
Cash on Hand	6,620,730.98	13,410,907.65
Check and Other Cash Items	5,296,061.89	7,633,868.39
TOTAL	11,916,792.87	21,044,776.04

CORPORATE INFORMATION

[illegible] INC. A RURAL BANK was formally organized [illegible] [illegible] of the Philippines on October 8, 1957 and [illegible] [illegible] established in Dipolog City and [illegible] rural bank opened in the Philippines [illegible] Rural Banking Act of 1952. The late Justice [illegible] support of his eldest son, Atty. Augusto [illegible] established the bank in 1957 and opened its [illegible] on November [illegible], 1957. It's first branch opened [illegible]. The second branch started its initial operations [illegible] [illegible], Zamboanga del Norte. On June [illegible] in [illegible], Zamboanga Sibugay. The Bank [illegible] when it opened its Pagadian Branch on November [illegible] [illegible], however, with its very prudent banking [illegible], the bank strategically placed its best [illegible] constituents of Negros Oriental through the opening of its [illegible] on May 18, 2012.

[illegible] on tradition of excellence and guided by [illegible], an established and progressive bank, envisioned itself [illegible] preferred partner for financial solutions that will facilitate [illegible] growth in local communities. With this corporate [illegible] the forefront of its operations, its [illegible] establishing a ubiquitous banking network within Zamboanga [illegible] through the opening of its first set of Microfinance Banking Offices [illegible] wit:

Oroquieta Microfinance Banking Office	October [illegible]
Manukan Microfinance Banking Office	August [illegible], 2010
Finan Microfinance Banking Office	August 4, 2010
Liloy Microfinance Banking Office	August 9, 2010
Molave Microfinance Banking Office	August [illegible]
Converted OBO to MBO (Manukan, Finan, Oroquieta Liloy and Molave	July [illegible]
Siayan Microfinance Banking Office	July 2, 2012
Calamba Microfinance Bankign Office	July 2, 2012
[illegible] Branch	August [illegible]
[illegible] Branch	August [illegible]

The first fifty years of the Bank ended last October [illegible], 2007 [illegible] extension of another fifty (50) years started on October [illegible] [illegible] of the Securities and Exchange Commission [illegible] under SEC Registration No. 13189.

[illegible] registered office is at [illegible] Rizal Avenue [illegible] City, Zamboanga del Norte, Philippines.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of Preparation

The accompanying financial statements have been prepared on a [illegible] cost basis except for available-for-sale (AFS) investments [illegible] been measured at fair value. The Bank's functional and [illegible] currency is Philippine peso and all values are rounded to the [illegible] pesos except when otherwise indicated.

Statement of Compliance

The financial statements of the Bank have been prepared [illegible] with Philippine Financial Reporting Standards (PFRS) [illegible]

Presentation of Financial Statements

The Bank presents its statements of condition broadly in [illegible] liquidity. An analysis regarding recovery or settlement within [illegible] after the statement of condition date (current) and more than [illegible] after the statement of condition date (non-current) is [illegible] presented in Note 18.

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those [illegible] previous financial year except for the following new and [illegible] standards of the Philippine Accounting Standards (PAS), [illegible] Financial Reporting Standards (PFRS) and Philippine Interpretations [illegible] International Financial Reports Interpretations Committee (IFRIC) [illegible] were adopted as of January 1, 2011.

New Standards and Interpretation

PAS 24, Related Party Transactions (Amendment)

PAS 24 clarifies the definitions of a related party. The new [illegible] emphasize a symmetrical view of related party relationships and [illegible] the circumstances in which persons and key management personnel [illegible] related party relationships of an entity. In addition, the [illegible] introduce an exemption from the general related party [illegible] requirements for transactions with government and entities [illegible] controlled, jointly controlled or significantly influenced by [illegible] government as the reporting entity. The adoption of the [illegible] not have any impact on the financial position or performance [illegible] Bank.

PAS 32, Financial Instruments: Presentation (Amendment)

The amendment alters the definition of a financial [illegible] to enable entities to classify rights issues and certain [illegible] warrants as equity instruments. The amendment [illegible] rights are given pro rata to all of the existing owners [illegible] class of an entity's non-derivative equity instruments [illegible] fixed number of the entity's own equity instruments for a fixed [illegible] of any currency. The amendment has had no effect on [illegible] position or performance of the Bank merause the Bank does not [illegible] type of instruments.

Philippine Interpretation IFRIC 14, Prepayments [illegible] Requirement (Amendment)
The amendment removes an unintended consequence [illegible] relating to minimum funding requirements and makes [illegible] contributions to cover such requirements. The amendment [illegible] prepayment of future service cost by the entity to be [illegible] pension asset. The Bank is not subject to minimum [illegible] in the Philippines, therefore the amendment of the interpretation [illegible] effect on the financial position nor performance of the Bank.

Improvements to PFRSs (issued 2010)
Improvements to PFRSs, an omnibus of amendments [illegible] primarily with a view to removing inconsistencies and [illegible] wording. There are separate transitional provisions [illegible] the adopti.n of the following amendments resulted [illegible] accounting policies but did not have any impact on the [illegible] position or performance of the Bank.

- PFRS 7, Financial Instrument - Disclosures: The amendment was intended [illegible] simplify the disclosures provided by reducing the volume of [illegible] around collateral held and improving disclosures by [illegible] information in context. The Bank reflects the [illegible] requirements in Note 4.
- PAS 1, Presentation of Financial Statements: The amendment [illegible] entity may present an analysis of each component of other [illegible] income [illegible] either in the statement of changes in equity [illegible] notes to the financial statements. The Bank provides this analysis [illegible] statement of changes in equity.

Other amendments resulting from the 2010 Improvements to PFRSs t.. the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- PFRS 3, Business Combinations (Measurement options available [illegible] controlling interest)
- PFRS 3, Business Combinations (Contingent consideration [illegible] business combination prior to adoption of PFRS 3, (as revised in 2008)
- PFRS 3, Business Combinations (Un-replaced and voluntarily [illegible] based payment awards)
- PAS 27, Consolidated and Separate Financial Statements
- PAS 34, Interim Financial Statements.

[illegible] interpretation and amendments to interpretations [illegible] rees impact on the accounting policies, financial position [illegible] of the Bank:

- Philippine Interpretation IFRIC 13, Customer [illegible] Determining the fair value of award credits).
- Philippine Interpretation IFRIC 19, Extinguishing Financial [illegible] with Equity Instruments.

Summary of Significant Accounting Policies

<u>Cash and Other Cash Items</u>
[illegible] and other cash items include local and foreign currency [illegible] on hand. For purposes of reporting cash flows, cash and cash [illegible] include amounts due from BSP and other banks with original maturities [illegible] months or less from dates of placements and that are subject to [illegible] risk of changes in value.

<u>Financial Instruments-Initial Recognition and Subsequent Measurement</u>
Date of recognition
Purchases or sales of financial assets that require delivery of assets [illegible] the time frame established by regulation or convention in the market [illegible] recognized on the settlement date. Deposits, amount due to banks and loans [illegible] recognized when cash is received by the Bank or advanced to the borrowers.

Initial Recognition of Financial Instruments
All financial assets instruments are initially recorded at fair value. [illegible] for financial assets and financial liabilities at fair value through profit [illegible] loss (FVPL), if any, the initial measurement of financial instruments [illegible] transaction cost. The Bank classifies its financial assets in the [illegible] categories: financial assets at FVPL, held-to-maturity (HTM) investments, loans and receivables and AFS investments. On the other hand, [illegible] classifies its financial liabilities in the following categories: [illegible] liabilities at FVPL and financial liabilities carried at amortized cost. [illegible] classification depends on the purpose for which the investments were [illegible] and whether they are quoted in an active market. Management determines [illegible] classification of its investments at initial recognition and, whether [illegible] appropriate, re-evaluates such designation at every statement of [illegible] date. As of December 31, 2013 and 2012, the Bank had no financial [illegible] liabilities at FVPL.

Determination of Fair Value
The fair value for financial instruments traded in active markets at statement of condition date is based on their quoted market price or dealer [illegible] quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask [illegible] are available the price of the most recent transaction is used [illegible] provides evidence of the current fair value as long as there has not [illegible] significant change in economic circumstances since the time of [illegible] transaction.

For all other financial instruments not listed in an active market, [illegible] value is determined by using appropriate valuation techniques. [illegible] techniques include net present value techniques, comparison to [illegible] instruments for which market observable prices exist, [illegible] and other relevant valuation models.

[illegible]

AFS investments are those which are designated as such or do not qualify to be classified as designated at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely. They include equity investments [illegible]

After initial measurement, AFS investments are subsequently measured at fair value. The unrealized gains (losses) arising from the fair valuation of AFS investments are excluded, net of tax, from the reported earnings and are reported under 'OCI' as 'Net unrealized gain on AFS investments' [illegible] in the statement of condition.

When the security is disposed of the cumulative gain or loss previously recognized in other comprehensive income is recognized in the statement of income. Interest earned on holding AFS investments are reported as interest income using the effective interest method. Dividends earned on holding AFS investments are recognized in the statement of income as [illegible] when the right of payment had been established. The losses arising from impairment of such investments are recognized as 'Provision for credit and impairment losses' in the statement of income.

Loans and receivables, amounts due from BSP and other banks

This accounting policy relates to the statement of condition captions 'Due from BSP', 'Due from other banks', and 'Loans and receivables'. These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Other financial assets held-for-trading', AFS investments or 'Financial assets at FVPL'.

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

Other financial liabilities

Issued financial instruments or their components, which are not designated at FVPL, are classified as liabilities under 'Deposit liabilities', 'Bills payable' or other appropriate financial liability accounts, [illegible] borrowed funds, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset.

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

Derecognition of Financial Assets and Liabilities

Financial asset

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

Assets that are individually assessed for impairment [illegible] impairment loss is, or continues to be recognized are not [illegible] [illegible] assessment for impairment.

[illegible] objective evidence that an impairment loss has [illegible] amount of the loss is measured as the difference between the [illegible] amount and the present value of the estimated future cash [illegible] credit losses that have been incurred). The [illegible] reduced through use of an allowance account and the [illegible] in the statement of income. Interest income [illegible] on the original EIR of the asset. Loans and [illegible] associated allowance accounts, are written off when there [illegible] of future recovery. If, in a subsequent year, the [illegible] estimated impairment loss decreases because of an event [illegible] impairment was recognized the previously recognized [illegible] reversed. Any subsequent reversal of an impairment [illegible] profit or loss, to the extent that the carrying value [illegible] amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, [illegible] grouped on the basis of such credit risk characteristics as [illegible] history, past-due status and term. Future cash flows in [illegible] assets that are collectively evaluated for impairment are [illegible] on the basis of historical loss experience for assets with [illegible] characteristics similar to those in the group. Historical loss [illegible] adjusted on the basis of current observable data to reflect the [illegible] current conditions that did not affect the year on which the [illegible] experience is based and to remove the effects of conditions [illegible] period that do not exist currently. The methodology and [illegible] estimating future cash flows are reviewed regularly by the [illegible] differences between loss estimates and actual loss experience.

AFS Investments
For AFS investments, the Bank assesses at each [illegible] whether there is objective evidence that a financial asset [illegible] financial assets is impaired.

In the case of equity investments classified as AFS investments, [illegible] include a significant or prolonged decline in the fair value [illegible] investments below its cost. Where there is evidence of impairment, [illegible] cumulative loss measured as the difference between the acquisition [illegible] the current fair value, less any impairment loss [illegible] previously recognized in profit or loss- is removed from [illegible] and recognized in the profit or loss. Impairment [illegible] investments are not reversed through the profit or loss and [illegible] value after impairment are recognized directly in OCI.

Restructured Loans
Where possible, the Bank seeks to restructure loans [illegible] collateral [illegible]. This may involve extending the [illegible] agreement of new loan conditions. Once the terms [illegible] the loan is no longer considered past due. Management [illegible] restructured loans to ensure that all criteria [illegible] payments are likely to occur. The loans continue [illegible] individual or collective impairment assessment, [illegible] original EIR. The difference between the recorded value [illegible]

the present value of the restructured cash flows, discounted at the original EIR, is recognized in the profit or loss.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of condition if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Investments in Associates

Investment in an associate is accounted for under the equity method of accounting. An associate is an entity which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, an investment in an associate is carried in the statement of condition at cost plus post-acquisition changes in the Bank's share of the net assets of the associate. The Bank's share in an associate's post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in the associate's equity reserves is recognized directly in other comprehensive income. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses resulting from transactions between the Bank and an associate are eliminated to the extent of the interest in the associate.

Property and Equipment

Depreciable properties including property and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value. The initial cost of property and equipment consist of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequently costs are capitalized as property and equipment only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred. Depreciation is computed on a straight-line basis over the estimated useful life (EUL) of the assets. Leasehold improvements are amortized over the EUL of the improvements or term of the lease, whichever is shorter.

The EUL of the property and equipment follows:

Building Premises	20 years
Leasehold Improvements	10 years
Furniture, Fixture and Equipment	1-25 years
Information Technology Equipment	1-5 years
Transportation Equipment	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 items of property and equipment.

When assets are retired or otherwise disposed of, the cost [illegible] accumulated depreciation and amortization and accumulated [illegible] if any, are removed from the accounts and any resulting [illegible] credited to or charged against current operations.

Investment Properties

Investment properties are measured initially at cost, [illegible] costs. The carrying amount includes the cost of replacing [illegible] investment property at the time that cost is incurred if [illegible] criteria are met, and excludes the costs of day-to-day [illegible] investment property. An investment property acquired [illegible] is measured at the fair value of the asset [illegible] value of such an asset cannot be measured in which case [illegible] acquired is measured at the carrying amount of the [illegible] properties are classified under 'Investment [illegible]

Subsequent to initial recognition, depreciable investment properties [illegible] at cost less accumulated depreciation and any impairment [illegible] Depreciation is computed on a straight line basis over the [illegible] lives of the investment properties of 22 years.

Investment properties are derecognized when they have been disposed of [illegible] investment property is permanently withdrawn from use [illegible] benefit is expected from its disposal. Any gains or losses on the [illegible] disposal of an investment property are recognized in the statement of income under 'Miscellaneous account in the year of retirement or disposal.

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

Intangibles

Software Cost

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

Branch Licenses

Branch licenses have been acquired and granted by the BSP and [illegible] the basis of the cost incurred to acquire and bring to use [illegible] Branch licenses were determined to have indefinite useful lives. [illegible] tested for impairment annually either individually or [illegible] Such intangibles are not amortized. The useful life of [illegible] reviewed annually to determine whether indefinite life assessment [illegible] supportable. If not, the change in the useful life [illegible] indefinite to finite is made on a prospective basis.

Impairment of Nonfinancial Assets

Property and equipment, investment properties and [illegible] At each statement of condition date, the Bank assesses whether there is [illegible] indication that its nonfinancial assets may be impaired. When an [illegible] impairment exists or when an annual impairment testing [illegible] required, the Bank makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset'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 cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged to operation in the year in which it arises.

For property and equipment, investment property and investment in associate excluding goodwill, an assessment is made at each statement of condition 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 is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss. After such a reversal, the depreciation 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.

Software costs
Software costs are assessed for impairment whether there is an indication that software costs may be impaired.

Branch licenses
Branch licenses are tested for impairment annually or more frequently, either individually or at the cash-generating unit level, as appropriate or when circumstances indicate that the carrying value may be impaired.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Bank and the revenue can be reliably measured. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank has concluded that it is not acting as a principal in any 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, 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 including 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 [illegible]

of the financial asset or financial liability is adjusted [illegible] its estimates of payments or receipts. The adjusted carrying [illegible] calculated based on the original EIR. The change in carrying [illegible] recorded as interest income.

Once the recorded value of a financial asset or [illegible] financial assets has been reduced due to an impairment loss, interest income [illegible] to be recognized based on the original EIR used to [illegible] the future cash flows.

Rental income

Rental income arising on leased properties is accounted for [illegible] basis over the lease terms on ongoing leases and is [illegible] loss under 'Miscellaneous income'.

Service fees and bank charges

[illegible] fees, penalties and bank charges are recognized only upon [illegible] or accrued where there is reasonable degree of certainty [illegible] collectability.

Service fees earned for the provision of services over a period [illegible] accrued over that period. These fees include portfolio fees, credit [illegible] fees, deposit related fees and other management fees.

The Bank collects service fees every time the borrower [illegible].

Expense Recognition

Expenses are recognized when decrease in future economic benefits [illegible] decrease in an asset or an increase of a liability has arisen [illegible] measured reliably. Expenses are recognized when incurred.

Equity

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

When the Bank issues more than on class of stock, a separate [illegible] maintained for each class of stock and the number of shares issued.

Surplus represents accumulated earnings of the Bank less dividends [illegible].

Earnings or Loss Per Share

Basic earnings or loss per share is computed by dividing net income [illegible] for the year by the weighted average number of common shares [illegible] outstanding during the year, after giving retroactive effect [illegible] dividends declared stock rights exercised and stock [illegible] during the year. The Bank does not have any dilutive [illegible].

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted [illegible] equity when approved by the Board of Directors (BOD) [illegible] for the year that are approved after the statement of condition date [illegible] with as an event after the statement of condition date.

Leases

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

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

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

Bank as lessee

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

Bank lessor

Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset 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 period in which they are earned.

Income Taxes

Current taxes

Current tax assets and liabilities for the current and prior years 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 condition date.

Deferred taxes

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

Deferred tax liabilities are recognized for all taxable temporary differences with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carry forward of unused tax credits from MCIT over the RCIT and unused NOLCO can be utilized.

Deferred tax liabilities are not provided on nontaxable [illegible] associated with investments in associates. With respect to [illegible] deferred tax liabilities are recognized except where [illegible] the reversal of the temporary difference can be controlled and it [illegible] that the temporary difference will not reverse in the foreseeable [illegible]

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

Deferred tax assets and deferred tax liabilities are measured at [illegible] tax rate applicable to the year when the asset will be realized [illegible] liability will be settled, based on tax rates (and tax laws) [illegible] enacted or substantively enacted at the statement of condition date.

Deferred tax assets and deferred tax liabilities [illegible] enforceable right exists to set off current tax assets against current [illegible] liabilities and deferred taxes related to the same taxable entity and [illegible] taxation authority.

Provisions

Provisions are recognized when the Bank has a present obligation [illegible] constructive) as a result of a past event and it is probable that an [illegible] of resources embodying economic benefits will be required to settle [illegible] obligation and a reliable estimate can be made of the amount [illegible] obligation. Where the Bank expects some or all of a provision [illegible] reimbursed, for example, under an insurance contract, the reimbursement [illegible] recognized as a separate asset but only when there reimbursement [illegible] certain. The expense relating to any provision is presented in the [illegible] of comprehensive 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 that reflects current [illegible] assessments of the time value of money and, where appropriate, [illegible] specific to the liability. Where discounting is used, the increase [illegible] provision due to the passage of time is recognized as 'Interest expense'.

Contingencies

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

Events after statement of Condition Date

Any post-year-end event that provides additional information about [illegible] position at the statement of condition date (adjusting events) are [illegible] the financial statements. Any post-year-end events that are not adjusting [illegible] are disclosed when material to the financial statements.

Future Charges in Accounting Policies

[illegible] will adopt the following standards and interpretations [illegible] become effective. Except as otherwise indicated, the Bank does not expect [illegible]

[illegible] of these new and amended PAS, PFRS and Philippine [illegible] have significant impact on its financial statements.

PAS 1, Financial Statement Presentation- Presentation of Items [illegible] Comprehensive Income
The amendments to PAS 1 change the grouping of items presented [illegible] that could be reclassified (or "recycled") to profit or loss at a [illegible] in time (for example, upon derecognition or settlement) would be [illegible] separately from items that will never be reclassified. The amendment [illegible] presentation only and has therefore no impact on the Bank's [illegible] or performance. The amendment becomes effective for annual periods [illegible] or after July 1, 2012.

PAS 12, Income Taxes Recovery of Underlying Assets
The amendment clarified the determination deferred tax on investment [illegible] measured at fair value. The amendment introduces a rebuttable presumption [illegible] deferred tax on investment property measured using the fair value model [illegible] 40, Investment Property, should be determined on the basis [illegible] amount will be recovered through sale. Furthermore, [illegible] requirement that deferred tax on non-depreciable assets that [illegible] using the revaluation model in PAS 16, Property, Plant and Equipment [illegible] measured on a sale basis of the asset. The amendment becomes effective [illegible] annual periods beginning on or after January 1, 2012.

PAS 19, Employee Benefits (Amendment)
Amendments to PAS 19 range from fundamental changes such as [illegible] corridor mechanism and the concept of expected returns on plan assets [illegible] simple clarifications and rewording. The Bank is currently assessing [illegible] impact of the amendment to PAS 19. The amendment becomes effective [illegible] periods beginning on or after January 1, 2013.

PAS 27, Separate Financial Statements (as revised in 2011)
As a consequence of the new PFRS 10, Consolidated Financial Statements [illegible] Disclosure of Interest in Other Entities, what remains of PAS [illegible] limited to accounting for subsidiaries, jointly controlled entities [illegible] associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 28, Investment in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new PFRS 11, Joint Arrangements, and PFRS [illegible] has been renamed PAS 28, Investments in Associates and Joint Ventures [illegible] describes the application of the equity method to investments [illegible] ventures in addition to associates. The amendment becomes effective [illegible] periods beginning on or after January 1, 2013.

PFRS 7, Financial Instruments: Disclosures Enhanced Derecognition [illegible] Requirements
The amendment requires additional disclosure about financial assets [illegible] been transferred but [illegible] derecognized to enable the user [illegible] financial statements to understand the relationship with [illegible] have not been derecognized and their associated liabilities. [illegible] amendment requires disclosures about continuing involvement [illegible] assets to enable the user to evaluate the nature of and risks [illegible] [illegible] continuing involvement in those derecognized [illegible] amendment becomes effective for annual periods beginning on or after

[illegible]. The amendment affects disclosures only and has no [illegible] financial position or performance.

IFRS 7, *Financial Instruments: Disclosures* [illegible] *Offsetting Financial* [illegible] *Financial Liabilities*

These amendments require an entity to disclose information [illegible] set-off and related arrangements (such as collateral agreements) [illegible]. The [illegible] are required for all recognized financial instruments [illegible] in accordance with PAS 32. These disclosures also apply [illegible] financial instruments that are subject to an enforceable [illegible] arrangement or 'similar agreement', irrespective of whether they are [illegible] in accordance with PAS 32. The amendments require entities to disclose [illegible] tabular format unless another format is more appropriate [illegible] 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 [illegible] 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 the above [illegible]:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and
e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to IFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and has no impact on the Bank's financial position or performance.

IFRS 9, *Financial Instruments Classification and Measurement*

IFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of [illegible] financial assets, but will potentially have no impact on classification and measurement of financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

After consideration of the result of its impact evaluation, the [illegible] [illegible] early adopt either IFRS 9 (2009) or IFRS 9 [illegible] financial reporting. The Bank shall conduct in early [illegible] [illegible] the outstanding balances of financial [illegible] [illegible] statement that the Bank's [illegible] [illegible] IFRS 9 [illegible] should be disclosed in its interim financial statements [illegible] [illegible] state that if the decision of the Bank [illegible] early adopt the subject standard for its 2012 financial reporting, [illegible]

[illegible] as of March 31, 2013 will already reflect the [illegible] requirements under the said standard and will contain a [illegible] quantitative discussion of the result of the Bank's impact [illegible].

[illegible] 10, Consolidated Financial Statements
[illegible] replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the consolidated financial statements. It includes the issues raised in SIC-12, *Consolidation-Special Purpose Entities*. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 11, Joint Arrangements
PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities-Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard is expected not to have any impact on the financial position of the Bank. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 12, Disclosure of Involvement with Other Entities
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

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 when fair value is required or permitted. The Bank is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities
These amendments to PAS 32 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. [illegible] amendment is expected not to have impact on the [illegible] Bank. Any changes in offsetting is expected to impact leverage [illegible] regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Bank is currently assessing impact of the amendments to PAS 32.

[illegible] Stripping Costs in the Production Phase of a Surface Mine: IFRIC 20 [illegible] for the [illegible] assets.

[illegible] 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, Construction Contracts, 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 [illegible] industry is completed.

[illegible] Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

3. Significant Accounting Judgments and Estimates

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

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

Judgments

a. *Going Concern*

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

b. *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the statements of condition cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models [illegible]

... observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

c. *Financial assets not quoted in a active market*
The Bank classifies financial assets by evaluating, among others, whether the asset is quoted or not in a active market. Included in the evaluation of 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.

Estimates

a. *Credit losses of loans and receivables*
The Bank reviews its impaired loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income.

In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have greater risk of default than when originally granted. The collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. Refer to Note [illegible] for the carrying values of loans and receivables and the corresponding allowance for credit losses.

b. *Estimated useful lives of property and equipment, investment properties and software costs*
The Bank estimates the useful lives of its property and equipment, investment properties and software cost based on the period over which these assets are expected to be available for use. The EUL of property and equipment, investment properties and software costs are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above.

Refer to Notes [illegible], [illegible] and [illegible] for the carrying values of property and equipment, investment properties and software costs, respectively. Refer to Note [illegible] for the estimated useful lives of these assets.

c. *Impairment of nonfinancial assets*
Property and equipment, investment properties and software costs
The Bank assesses the impairment of nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

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

- [illegible] changes in the manner of use of the acquired [illegible] strategy for overall business; and
- [illegible] negative industry or economic trends.

[illegible] the recoverable amount represents the value [illegible] the estimated future cash flows are discounted [illegible] a pre-tax discount rate that reflects current [illegible] the time value of money and the risk specific to the asset [illegible] present value of estimated future cash flows expected [illegible] use of the assets, the Bank is required [illegible] that can materially affect the financial statements [illegible] the related balances of property and equipment [illegible] and software cost, respectively. As of December [illegible] Bank's property and equipment, investment properties and software [illegible]

e. Recognition *of deferred tax assets*

[illegible] reviews the carrying amount of deferred [illegible] statement of condition date and reduces deferred tax assets [illegible] that it is no longer probable that sufficient taxable [illegible] available to allow all or part of the deferred tax assets [illegible] However, there is no assurance that the Bank will generate [illegible] taxable income to allow all or part of deferred tax assets to be [illegible] The Bank looks at its projected performance in assessing the [illegible] the future taxable income.

f. Contingencies

[illegible] Bank is currently involved in legal proceedings. The estimate [illegible] probable cost for the resolution of claims has been developed [illegible] consultation with the aid of the outside legal counsel handling the [illegible] defense in this matter and is based upon an analysis of potential [illegible] Management does not believe that the outcome of this matter [illegible] significantly affect the results of operations. It is probable [illegible] that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

4. Financial Risk Management Objectives and Policies

Introduction

Risk is inherent in the Bank's activities but it is managed [illegible] through a process of ongoing identification, measurement and monitoring, subject to prudent risk limits and strong controls. This process of risk management is critical to the Bank's continuing profitability and each [illegible] in the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic and budgeting process.

[illegible] principal financial instruments consist of cash and [illegible] due from [illegible] due from other banks, AFS investments, [illegible]

[illegible], other assets, deposit liabilities, bills payable, [illegible] payable and accrued expenses, and other liabilities.

Risk Management Structure

The BOD is responsible for the overall risk management [illegible] reviews and approves the policies for managing each of these risks. [illegible] oversees and monitors the implementation of its risk through the [illegible] committees that it has created.

Risk Measurement and Reporting

[illegible] and controlling risks is primarily performed based [illegible] established by the Bank. These limits reflect the business [illegible] market assessment of the Bank as well as the level of risk that [illegible] willing to accept. In addition, the Asset Liability [illegible] monitors and measures the overall risk-bearing capacity [illegible] aggregate risk exposure across all risk types and activities. [illegible] information is presented and explained to the BOD and the head [illegible] business division.

Risk Mitigation

In as much as risks are among the realities associated with [illegible] business operations, procedures have been put in place [illegible] mitigate them such as setting limits for individual borrowers and [illegible] borrowers and industry segments and it actively use collaterals [illegible] its credit risks.

Excessive Risk Concentration

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

The Bank through its Operations committee, likewise manages [illegible] risks by setting exposure limit to borrowing groups, industries, [illegible] appropriated, on products and facilities.

Identified concentrations of risks are controlled and managed accordingly.

The main risks arising from the Bank's financial instruments are [illegible] risk, liquidity and market risk. The management of the Bank reviews [illegible] approves the policies for managing each risk which are summarized [illegible] follows:

Credit risk

Credit risk is the risk of loss resulting from the failure of a [illegible] counterparty to perform its obligations during the life of the [illegible] This includes risk of non-payment by borrowers or [illegible] settlement of transactions and default on contracts.

[illegible] exposed to credit risk arising from loan [illegible] with a maximum exposure without taking into account [illegible] other credit enhancements equal to the carrying amount of [illegible] [illegible], stringent policy has been implemented [illegible] [illegible] the Bank grants credit only with recognized, [illegible]

[illegible]. The Bank transactions only with clients which have [illegible] financial soundness.

The Bank extends loans that are too small for commercial [illegible] [illegible] salary loans, commercial loans and real estate loans. [illegible] lending [illegible] include, among others, that all loan applications [illegible] subjected to credit verification procedures, [illegible] by [illegible] and requires a borrower for salary loan [illegible] [illegible] loan is granted. The Credit Committee [illegible] implementation of credit policies and monitors loans [illegible] [illegible] basis to school teachers.

The Bank's loans are actively monitored to avoid significant [illegible] of credit risk in accordance with the BSP's prohibition [illegible] [illegible] exposure to any single person or group [illegible] [illegible] of its net worth.

[illegible] credit risk is managed through regular analysis [illegible] of borrowers and potential borrowers to meet interest and [illegible] obligations and by changing these lending limits when appropriate. [illegible] credit risk is also managed in part by obtaining [illegible] personal guarantees.

[illegible] financial effect of collateral in mitigating credit risk is [illegible] the fair value of the collateral or the carrying value [illegible] whichever is lower.

The Bank does not have financial guarantee and loan commitments [illegible] credit related liabilities.

Management monitors the market value of collateral every two years [illegible] additional collateral in accordance with the underlying agreement [illegible] existing market value of collateral is considered during the review [illegible] adequacy of the allowance for credit losses.

It is the Bank's policy to dispose assets acquired in an orderly manner. [illegible] proceeds of the sale of the foreclosed assets (classified as [illegible] properties' in the statements of condition) are used to reduce [illegible] outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Credit quality per class of financial asset
The Bank is in the process of developing an internal risk [illegible] [illegible] aimed at uniformly assessing its credit risk [illegible] grading system imposed by the Bank on its financial assets [illegible] manual of regulations for banks handed by the BSP. The Bank's [illegible] of financial assets follows:

Cash and other items, Due from BSP, Due from other banks [illegible] based on the nature of the counterparty and the Bank's internal [illegible]

[illegible] receivables
[illegible] These are receivables which have a high probability [illegible] the counterparty has the apparent ability to satisfy its obligations [illegible] [illegible] on the receivables is readily enforceable.

[illegible] – These are receivables where collections are [illegible] [illegible] and the financial ability of the counterparty [illegible] [illegible] or default.

[illegible] – Accounts classified as "Substandard" are individual [illegible] [illegible] which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory [illegible]. There exists in such account the possibility of [illegible] [illegible] closer supervision. Those classified [illegible] have a well-defined weakness or weaknesses that [illegible] [illegible]. Such well-defined weaknesses may include adverse [illegible] development of financial, managerial, economic or political [illegible] [illegible] weakness in collateral.

[illegible] individually impaired comprise accounts under the [illegible] [illegible]

[illegible] – Accounts classified as "Specially [illegible]" [illegible] credits that have potential weakness particularly on [illegible] of credit administration that deserve management's close attention. [illegible] weaknesses, if left uncorrected, may affect the repayment [illegible] of the loan and thus heighten the credit risk to the Bank. A credit [illegible] classified as "Specially Mentioned" if there is evidence of weakness [illegible] borrower's financial condition or creditworthiness, or which is [illegible] [illegible] repayment program, or inadequate source of funds.

[illegible] – Accounts classified as "Doubtful" are individual [illegible] which have the weaknesses inherent in those classified "Substandard", with the added characteristic that existing facts, [illegible] [illegible] make collection or liquidation highly improbable and [illegible] substantial loss is probable. Positive and vigorous action is [illegible] [illegible] losses.

[illegible] – Accounts classified as "Loss" are individual credits [illegible] which are considered uncollectible or worthless and of such little value that their continuance as bankable of loss is difficult to [illegible] practical or desirable to defer writing off these basically worthless [illegible] even though partial recovery may obtain in the future.

Market risk

The risk of loss, immediate or over time, due to adverse [illegible] [illegible] market value of instruments product, and transactions [illegible] [illegible] portfolio, whether on or off balance sheet, is market [illegible] [illegible] by foreign and domestic interest rates, foreign exchange [illegible] gross domestic product growth.

Cash flow interest rate risk

[illegible] the risk that future cash [illegible] [illegible] [illegible] rate risk of the fair value [illegible] [illegible] will fluctuate because of changes in market interest rates.

The Bank [illegible] policy on managing its assets [illegible] [illegible] that exposure to fluctuations in interest rates are [illegible] [illegible]

5. CASH AND OTHER CASH ITEMS

This represents the total amount of cash in the bank's vault in the [illegible] of Philippine currency notes and coins under the custody of [illegible] including those in the possession of the tellers, as well as [illegible] other cash items received after the clearing cut-off time.

	2013	2012
Cash on Hand	P 6,620,730.98	[illegible]
Checks and Other Cash Items	5,296,061.89	[illegible]
TOTAL CASH AND OTHER CASH ITEMS	P11,916,792.87	P21,044,776.04

6. DUE FROM BANGKO SENTRAL NG PILIPINAS

This refers to the balance of the deposit account maintained with the BSP. It amounts to P15,776,319.61 in 2013 and P13,245,028.68 in 2012.

7. DUE FROM OTHER BANKS

This represents balances of deposits with no other banks including interests earned. Balances per books were reconciled with corresponding bank statements.

8. LOANS AND RECEIVABLES

This account refers to the following:

	2013	2012
Agrarian Reform Loan	P24,100,550.75	[illegible]
Other Agricultural Loan	45,230,893.07	[illegible]
Loans and Discounts	739,068,554.30	[illegible]
Microfinance Loans	63,517,302.48	[illegible]
TOTAL	P871,917,300.60	P738,263,328.98
Less: Allowance for Credit Losses	60,692,316.74	[illegible]
LOANS AND RECEIVABLE - NET	P811,224,983.86	679,090,348.18

Allowance for Probable Losses and General Loan Loss Provision [illegible] computed based on BSP Circular No. 313 Series of 2001.

Allowance for Probable Losses on loan accounts and other risk assets are set up as follows:

CLASSIFICATION	ALLOWANCES
Unclassified	1%
Loans Especially	5%
Mentioned	10%
Substandard-Secured	25%
Substandard-Unsecured	50%
Doubtful	100%
Loss	

General Loan Loss Provision is set up as follows:

1. One Percent (1%) of the outstanding balance of unclassified loans other than restuctured loans less loans which are considered non-risk under existing laws rules/regulations.

9. PROPERTY AND EQUIPMENT

This account consists of the following:

	COST	Accumulated Dep'n.	Book Value
Land	16,324,817.45		16,324,817.45
Building	68,885,749.61	14,096,656.67	54,789,092.94
Furniture Fixture and Equipt.	32,569,121.51	26,756,405.34	5,812,716.17
Transportation Equipment	13,549,325.68	5,883,996.57	7,665,329.11
Leasehold Improvements	4,512,690.20		4,512,690.20
TOTALS	135,841,704.45	46,737,058.58	89,104,645.87

Bank Premises (Except Land, leasehold improvements), furniture and equipment are carried at cost less accumulated depreciation. Depreciation is provided based on straight - line method over the estimated useful lives of the properties.

10. REAL AND OTHER PROPERTIES ACQUIRED

This account consists of the following:

	2013	2012
Real and Other Properties Acquired	10,351,349.85	P6,597,946.49
Sales Contract Receivable	788,898.28	442,020.27
Less: Allowance for Probable Losses		-
REAL AND OTHER PROPERTIES ACQUIRED-NET	P11,140,248.13	7,039,966.76

11. OTHER ASSETS

	2013	2012
Petty Cash Fund		P 6,000.00
Stationary and Office Supplies	1,565,687.37	1,047,696.70
Accounts Receivable	6,170,389.69	2,351,397.06
Prepaid Expenses	1,641,187.46	7,523,390.91
Investments in Bonds and Other Debt Ins.	4,537,681.44	39,500.00 1,761,057.62
Miscellaneous Assets	9,021,108.35	
TOTAL OTHER ASSETS	P22,936,054.31	P12,734,795.2[illegible]

12. DEPOSIT LIABILITIES

This account is classified as follows:

	2013	2012
Savings Deposits	P440,021,730.73	P508,92[illegible]
Demand Deposits	989,098.78	8[illegible]0,214.0[illegible]
Time Certificate of Deposits	156,313,127.57	1,7[illegible]
TOTAL DEPOSIT LIABILITIES	P597,323,957.08	P511,[illegible]

13. BILLS PAYABLE

This refers to the amortized cost of borrowings from BSP and other [illegible]

	2013	2012
BangkoSentral ng Pilipinas	P 824,000.00	
Other Banks	103,707,962.07	P 81,70[illegible]
TOTAL	P104,531,962.07	P81,70[illegible]

14. CURRENT TAXES LIABILITIES

	2013	2012
Accrued Income Tax Payable	P 3,410,590.86	P 3,940,715.31
Other Taxes and Licenses Paid	1,857,840.31	
	P5,268,431.17	P3,940,[illegible]

15. OTHER LIABILITIES

	2013	2012
Deferred Credits	P 15,800.00	P 407,000.00
Accrued Expense Payable		292,[illegible]
Accounts Payable	16,645,643.44	2,931,1[illegible]
Withholding Tax Payable	1,020,769.56	
SSS, Medicare Premium Payable	222,975.75	545,[illegible]
Overages		193,[illegible]
Provisions	12,248,097.34	54,[illegible]
Miscellaneous Liabilities	3,021,580.02	4,[illegible]
	P33,174,366.11	P9,668,[illegible]

16. EQUITY ACCOUNTS

	2013	2012
Authorized Capital Stock of 1,000,000 shares divided into: Common - 996,814 @ P100 par value Preferred - 1,186 shares @ P100 par value		
Capital Stock - Common	P99,873,900.00	P99,873,900.00
Capital Stock -Distributable- Common	7,500.00	7,500.00
Capital Stock - Preferred	39,500.00	39,500.00
SURPLUS AND SURPLUS RESERVES		
Surplus Free and Surplus Reserve	P221,696,434.49	P116,704,873.92
Undivided Profits	25,088,866.65	120,009,933.69
TOTAL	P346,706,201.14	P336,635,707.42

17. INTEREST INCOME ON LOANS AND RECEIVABLES

	2013	2012
Interest on Current Loans	160,971,772.27	P144,699,461.52
Interest on Past due Loans	3,453,674.77	4,122,432.85
	164,425,447.04	P148,821,894.37

18. INTEREST INCOME ON DEPOSITS WITH BANKS

	2013	2012
Deposit with Other Banks	P635,242.08	P681,176.99
Deposit with BangkoSentral ng Pilipinas		55,328.55
TOTAL	P635,242.08	P 736,505.54

and recreation (EAR) expenses that can be deducted for income tax purposes. EAR expenses are limited to 1.00% of net revenue for sellers of services.

Income tax expense for the year is computed as follows:

Total Income			195,387,237.36
Less: Total Expenses			158,965,274.67
Net Income per Income Statement			36,421,962.69
Less: Income Subject to Final Tax			
Interest Income-Due from BSP &Other Banks			635,242.08
GROSS TAXABLE INCOME BEFORE NON-DEDUCTIBLE EXPENSES			35,786,720.61
Add: Non-Deductible Expense			
42% Interest Arbitrage int. on Due from Other Banks			209,775.79
NET TAXABLE INCOME			35,996,496.40
Normal Income Tax Rate			10,798,948.92
INCOME TAX PAYABLE			3,410,590.86
INCOME TAX PAYABLE			
INCOME TAX-RCIT			10,798,948.92
Less: Quarterly Income Tax Payments	Date Paid		
1st Quarter	5/30/2013	2,397,901.24	
2nd Quarter	8/29/2013	2,549,258.28	
3rd Quarter	11/25/2013	2,441,198.54	7,388,358.06
INCOME TAX PAYABLE			3,410,590.86
MINIMUM CORPORATE INCOME TAX			
TOTAL INCOME			195,387,237.36
Less: Direct Expenses			
Compensation/Employees' Benefits		31,371,527.61	
Interest Expense		17,261,050.91	
BSP Supervisory Fees		231,758.25	
Insurance-PDIC		1,938,001.91	
Depreciation		14,884,874.92	65,687,213.60
NET TAXABLE INCOME TAX			129,700,023.76
MCIT TAX PAYABLE			2,594,000.48

The Bank uses the Regular Corporate Income Tax (RCIT) AS THIS IS HIGHER THAN Minimum Corporate Income Tax (MCIT)

24. Related Party Transactions

The Bank's related parties include its DOSRI, associates and others. None of the transactions incorporate special terms and obligations. Outstanding balances are usually settled in cash.

In the ordinary course of business, the Bank has transactions with other branches and Bank offices and with some of their DOSRI. Under the Bank's policies, these transactions are made substantially on the same terms and conditions as transactions with individuals and businesses of comparable risks. Current 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 the book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the lower of the Bank's total regulatory capital or 15.00% of the total loan portfolio. As of December 31, [illegible] and 2010, the Bank was in compliance with the regulatory requirements.

On March 15, 2004, the BSP issued Circular No. 423 which provides for the amended definition of DOSRI accounts. The Bank has no outstanding DOSRI loans as of December 31, 2013 and 2012.

Any violation of the provision of BSP Circular No. 423 is subject to regulatory sanctions. Loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered DOSRI accounts prior to the issuance of said circular shall not be covered by such sanctions and in addition to such exception, unsecured amounts shall not be deducted from the capital accounts (for regulatory purposes) for a period of two years from the affectivity of said circular or unless said loan, other credit accommodations and guarantees become past-due, or extended, renewed or restructured, whichever comes later.

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 February 15, 2007.

The Bank does not have any other credit accommodation and guarantees granted to affiliates.

BSP approved the proposed Special Financing Plan (SFP) to officers and employees. The objective of the SFP is to provide financial assistance to the Bank's officers as part of their fringe benefits and to meet the housing, transportation, household and personal needs of their officers. The approved SFP is subject to the following conditions, that:

- the Bank shall strictly comply with provisions of Sec. 83 of R.A. 337, *General Banking Act*, as amended, and its implementing regulations on financial assistance

- the Bank shall strictly comply with provisions of Sec. 83 of R.A. 337, *General BankingAct*, as amended, and its implementing regulations on financial assistance
- the Bank shall strictly comply with guidelines/regulations governing financial plans for Banks and Other Financial Intermediaries, Book II
- The aggregate amount of the loans to be granted under the program shall at no time exceed 5.00% of total loan portfolio.
- the Bank's investment in equipment and other chattels under its fringe benefit program for officers and employees shall be included in determining the extent of the investment of the Bank in real estate and equipment for purposes of Sec. 25 of RA 337.
- any amendments to the SFP shall be submitted to the Central Point of Contact within thirty (30) calendar days from approval thereof by the Bank's BOD.

The transactions of the Bank with respect to related parties were carried out of terms that prevail on an arm's length transactions.

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25. **COMPLIANCE WITH R.A. NO. 9160 AS AMENDED BY R.A. NO. 9194 FURTHER AMENDED BY RA 10167 AND RA 10365.**

The bank has complied with the reporting guidelines of covered and suspicious transactions.

26. Financial Performance

The following basic ratios measure the financial performance of the Bank:

	2013	2012
Return on average equity (ROE)	7.99%	[illegible]
Return on average assets (ROA)	2.80%	[illegible]
Net interest margin	19.68%	18.06%

4. Earnings per share are computed as follows:

	2013	2012
Net income	P25,623,013.77	P24,215,[illegible]
Outstanding common shares	99,816	99,816
Earnings per share	256.70	242.59

There were dilutive earnings per share in 2013 and 2012.

5. Risk Based Capital Adequacy Ratio (see Annex A - analysis)

$$\frac{\text{Total Qualifying Capital}}{\text{Total Risk-Weighted Asset}} = \frac{354.179}{1,195.554} = 29.62$$

6. PAST DUE RATIO

$$\frac{\text{Total Past Due and LIL}}{\text{Total Loan Portfolio}} = \frac{60,353,681.95}{871,917,300.60} = 6.92\%$$

7. PROVISION AND ALLOWANCE FOR PROBABLE LOSSES

Specific Loan Loss Provision	P 53,179,224.14
General Loan Loss	7,513,092.60
TOTAL	P60,692,316.74

8. CONCENTRATION OF CREDIT AS TO INDUSTRY

	AMOUNT	PERCENTAGE
Agricultural Reform Loan	24,100,550.75	2.76%
Other Agri Credit	45,230,893.07	5.19%
Bills Discounted	89,174,407.28	10.23%
Time Loan	649,894,147.02	74.54%
Microfinance Loan	63,517,302.48	7.28%
Total Loan Portfolio	871,917,300.60	100.00%

9. BREAKDOWN OF TOTAL LOANS AS TO SECURED AND UNSECURED

	CURRENT	PAST DUE	ITEMS IN LITIGATION	TOTAL
DOSRI				
Secured	468,026.92			468,026.92
Unsecured				
NON-DOSRI				
Secured	147,375,456.28	10,323,628.25	269,167.34	157,968,251.87
Unsecured	663,720,135.45	33,542,377.42	16,218,508.94	713,481,021.81
TOTAL	811,563,618.65	43,866,005.67	16,487,676.28	871,917,300.60

27. Supplementary Information under Revenue Regulations(RR)No. 19 2011

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the BIR issued RR No. 19-2011 which prescribes the new annual income tax forms that will be used for filling effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements.

28. Supplementary Information Under Revenue Regulations (RR) No. 15-2010.

In compliance with the requirements set forth by RR 15-2010 hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

Gross receipts tax

The NIRC of 1997 provides for the imposition of gross receipts tax (GRT) on gross receipts derived by Banks from sources within the Philippines. Accordingly, the Bank's gross receipts are subject to GRT as reimposed in RA No. 9238 beginning Jan. 1, 2004.

Documentary Stamp tax

The Bank passes on the DST its borrowers.

Withholding taxes

Details of total remittances of withholding taxes for the year ended December 31, 2013 follow:

Withholding taxes on compensation and benefits	P 1,903,2[illegible]
Creditable withholding taxes	938,183.55
Final withholding taxes	2,704,47[illegible].00
	P 5,545,847.[illegible]

Outstanding amount of withholding taxes are included in 'Other liabilities' account in the statements of condition.

Others

The Bank has no value-added tax and excise tax transaction and importation made in 2013. In 2013, the Bank has no deficiency tax assessment, whether protested or not, nor tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR.

29. RETIREMENT FUND

Retirement fund of the employees is currently invested in Metrobank Trust in the amount of P4,473,082 per year end report it shows an increment of P392,957.51 or 7.62% totaling to P4,904,529.3[illegible].