

## Credit Risk

The Bank's risk-weighted exposures arising from on-balance sheet assets (PHP57.10BB) contributed almost 99% of the credit exposures of the Bank. Risk-weighted off-balance sheet assets (PHP 218.30MM) and counterparty risk-weighted assets in the trading book (PHP380.60MM) make up the remainder. The off-balance sheet items were weighted at 100%. The assets in the trading book were weighted at 100%, except for PHP 9.85MM which was based on a 20% risk weight on the credit equivalent amount. Breakdown of the on-balance sheet items is in table below:

Nature of Item	Exposures, Net of Specific Provisions	Exposures covered by CRM, Gross of Materiality Threshold	Exposures not Covered by CRM	Risk Weights						TOTAL
				0%	20%	50%	75%	100%	150%	
Cash on Hand	1,321.281		1,321.281	1,321.281						1,321.281
Checks and Other Cash Items	11.229		11.229		11.229					11.229
Due from BSP	16,603.847		16,603.847	16,603.847						16,603.847
Due From Other Banks (including Interbank Loans)	3,525.943		3,525.943		2,358.400	685.908		481.636		3,525.943
Available for Sale Financial Assets	18,564.632		18,564.632	8,098.653	40.874	1,276.336		9,148.768		18,564.632
Unquoted Debt Securities Classified as Loans	10.343		10.343					10.343		10.343
Loans and Receivables	36,959.798	1,935.647	35,024.151			849.984		33,118.902	1,055.265	35,024.150
Sales Contract Receivables	1,458.109		1,458.109					1,018.881	439.228	1,458.109
Real and Other Properties Acquired	2,269.951		2,269.951						2,269.951	2,269.951
Total Exposures Excluding Other Assets	80,725.132	1,935.647	78,789.485	26,023.781	2,410.503	2,812.228		43,778.528	3,764.445	78,789.485
Other Assets	8,588.415		8,588.415	2,795.917				5,792.498		8,588.415
Total Exposures Including Other Assets	89,313.547	1,935.647	87,377.900	28,819.698	2,410.503	2,812.228		49,571.026	3,764.445	87,377.900
Total Risk Weighted On-Balance Sheet Assets not covered by CRM					482.101	1,406.114		49,571.026	5,646.667	57,105.908
Total Risk-weighted On-Balance Sheet Assets covered by CRM					0.249					0.249
<b>TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS</b>					<b>482.350</b>	<b>1,406.114</b>		<b>49,571.026</b>	<b>5,646.667</b>	<b>57,106.157</b>

IN PHP MM

## Market Risk

The Bank's exposure to market risk or the risk of the future potential loss due to the decline in prices of financial instruments, originates from its inventory of foreign exchange, debt and equity securities and freestanding derivatives.

Market-risk weighted assets by type of exposure as of December 31, 2012 consist of the following:

	in Php Millions
Interest Rate Exposures	4,753.603
Equity Exposures	-
Foreign Exposures	448.873
Options	-
<b>Total Market Risk-Weighted Assets</b>	<b>5,202.476</b>

### *Interest Rate Risk*

The Bank measures the sensitivity of its resources, liabilities and off-balance sheet items to fluctuations in interest rates on a monthly basis. The analysis focuses on the re-pricing profile of its rate sensitive assets and liabilities, and its influence on the Bank's accrual earnings. The interest rate re-pricing gap reports assigns all assets and liabilities into various time buckets according to the remaining days to maturity for fixed rate, or remaining days to next re-pricing for floating rate, or based on behavioral assumptions if more applicable. Loans, investments and deposits are entered in the time band according to its contracted maturity if fixed rate or to its next re-pricing date if floating. Cash and non-maturity deposits on the other hand, are considered non-rate sensitive.

The re-pricing gap, or the difference between the amount of assets and liabilities maturing or re-pricing in any tenor bucket indicates the extent to which the Bank is exposed to risk of potential drop in the net interest income. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A hike in interest rate results to lower Net Interest Income due to higher interest expense. Conversely, a drop in interest rate is unfavorable if the Bank has positive gap.

The table sets forth the Bank's Interest Rate Re-Pricing Gap Schedule as of December 31, 2012.

In Php Billions	Up to 1 month	1-3 months	3-6 months	6-12 months	1 -3 years	3-5 years	Beyond 5 years	Non-Rate Sensitive	TOTAL
<b>RESOURCES</b>									
Cash and COCI	-	-	-	-	-	-	-	1.33	<b>1.33</b>
Due from BSP & other banks	-	-	-	-	-	-	-	19.96	<b>19.96</b>
Interbank Loans Receivables	0.17	-	-	-	-	-	-	-	<b>0.17</b>
Total Investments	-	9.53	-	-	1.67	0.07	7.75	2.76	<b>21.77</b>
Total Loans	21.05	9.54	0.00	0.05	0.33	-	-	5.63	<b>36.60</b>
<i>SPURA</i>	-	-	-	-	-	-	-	-	-
<i>Performing</i>	21.14	9.54	0.00	0.05	0.33	-	-	4.67	<b>35.74</b>
<i>Non-performing</i>	(0.09)	-	-	-	-	-	-	0.96	<b>0.86</b>
Other Resources	0.93	0.06	0.01	0.00	-	-	-	11.87	<b>12.87</b>
<b>Total Resources</b>	<b>22.15</b>	<b>19.12</b>	<b>0.01</b>	<b>0.05</b>	<b>2.00</b>	<b>0.07</b>	<b>7.75</b>	<b>41.55</b>	<b>92.70</b>
<b>LIABILITIES</b>									
Deposit Liabilities	23.49	6.74	2.74	1.79	2.15	1.01	-	27.96	<b>65.89</b>
<i>Demand Deposits</i>	-	-	-	-	-	-	-	15.39	<b>15.39</b>
<i>Savings Deposits</i>	-	-	-	-	-	-	-	12.57	<b>12.57</b>
<i>Time Deposits</i>	23.49	6.74	2.74	1.79	2.15	1.01	-	-	<b>37.93</b>
Bills Payable	-	0.15	0.10	-	-	-	1.18	-	<b>1.43</b>
Bonds Payable	-	-	-	-	-	-	-	-	-
Subordinated Debt	-	-	-	-	-	-	-	-	-
Other Liabilities	-	-	-	-	-	-	-	7.44	<b>7.44</b>
<b>Total Liabilities</b>	<b>23.49</b>	<b>6.89</b>	<b>2.84</b>	<b>1.79</b>	<b>2.15</b>	<b>1.01</b>	<b>1.18</b>	<b>35.40</b>	<b>74.76</b>
Capital Funds	-	-	-	-	-	-	-	17.94	<b>17.94</b>
<b>Total Liab &amp; Capital Funds</b>	<b>23.49</b>	<b>6.89</b>	<b>2.84</b>	<b>1.79</b>	<b>2.15</b>	<b>1.01</b>	<b>1.18</b>	<b>53.33</b>	<b>92.70</b>
<u>On-book gap</u>	(1.34)	12.23	(2.83)	(1.74)	(0.16)	(0.95)	6.57	(11.79)	<b>0.00</b>
Contingent Resources	-	-	-	-	-	-	-	3.30	<b>3.30</b>
Contingent Liabilities	-	-	-	-	-	-	-	3.11	<b>3.11</b>
<u>Off-book Gap</u>	-	-	-	-	-	-	-	0.19	<b>0.19</b>
<b>Total Periodic Gap</b>	<b>(1.34)</b>	<b>12.23</b>	<b>(2.83)</b>	<b>(1.74)</b>	<b>(0.16)</b>	<b>(0.95)</b>	<b>6.57</b>	<b>(11.60)</b>	<b>0.19</b>

### Remuneration for Directors & Officers

Directors are entitled to per diem allowance for their attendance at Board of Directors and Board Committee meetings. The Bank ensures these allowances are at par with peers, given the quality of the Directors' inputs to these meetings. Corollary to this, the Bank utilizes data gathered from an industry acceptable remuneration survey to ensure that remuneration packages of the Bank's officers and senior executives are within industry standards.

Employee performance is recognized through periodic performance assessments. This process provides the basis for equitable distribution of salary movements and performance bonus.