PHILIPPINE BUSINESSBANK
a savings bank
Making Things Happen...Today!

WIDENING OUR REACH

2013 ANNUAL REPORT

OUR MISSION

The basis for the Bank's growth shall be our commitment for higher standards everyday, in everything we do in providing competitive products and services and through enthusiastic execution and teamwork in producing satisfaction - for our customers, our shareholders, our associates and our communities.

OUR VISION

By making things happen today, Philippine Business Bank will help build strong business communities where people can achieve their dreams.

ABOUT US

Philippine Business Bank (PBB) began operations on February 12, 1997, largely catering to the needs of small and medium scale businesses. The Bank's significant achievement in serving the SME market laid the foundation of its phenomenal growth, establishing 15 branches in just 2 years from start of operations. Today, PBB has grown with a network of 100 branches nationwide, offering a range of innovative banking services. Building on a solid reputation and leveraging on strategic plans, PBB is setting the wheels of progress in high gear.

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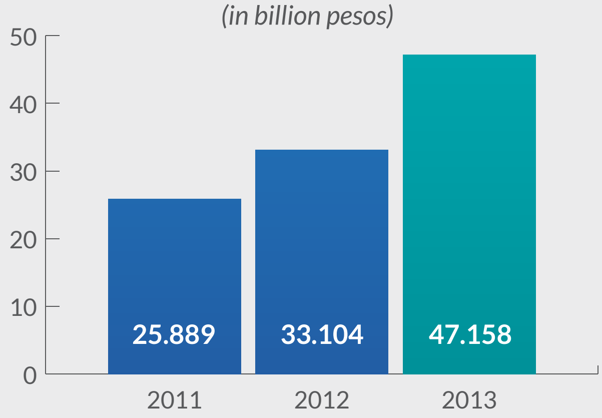
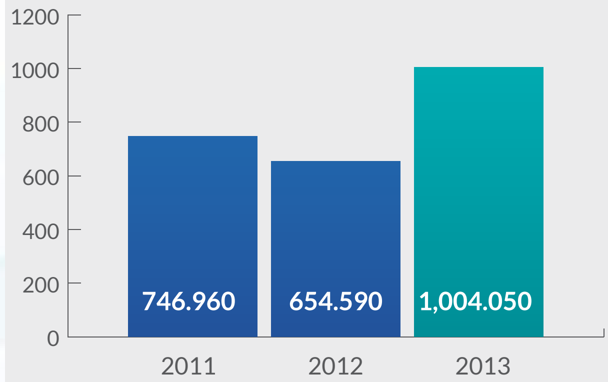
FINANCIAL HIGHLIGHTS

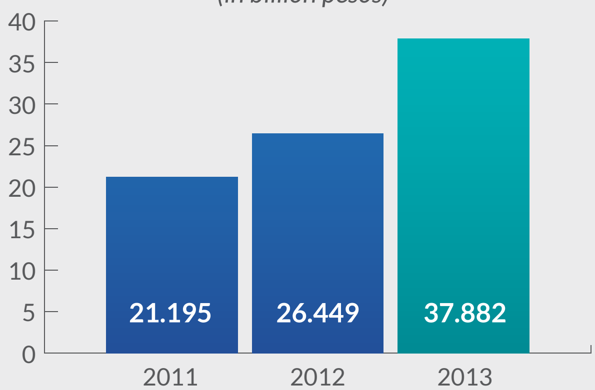
TOTAL RESOURCES
(in billion pesos)



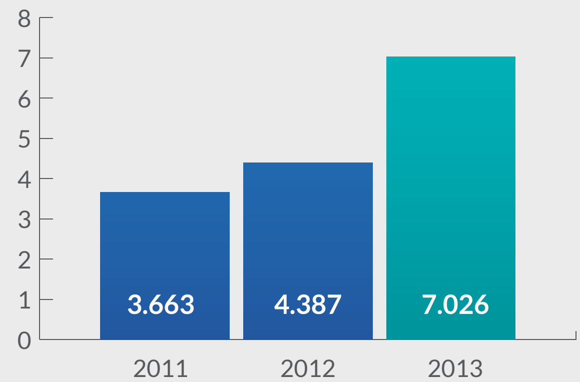
NET INCOME
(in million pesos)



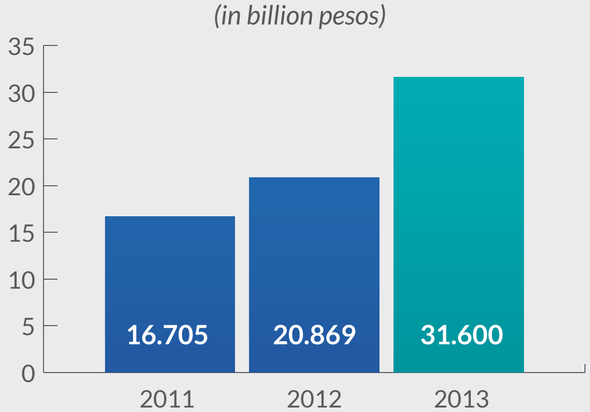
DEPOSIT LIABILITIES
(in billion pesos)



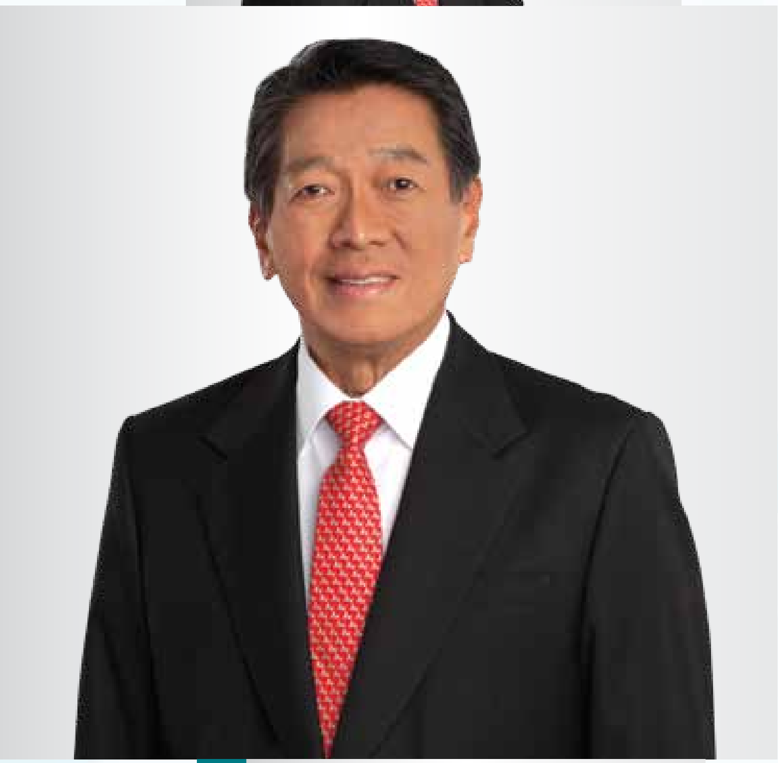
CAPITAL FUND
(in billion pesos)

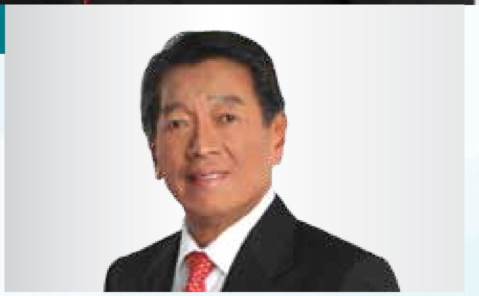


TOTAL LOANS
(in billion pesos)



LETTER TO STOCKHOLDERS





ALFREDO M. YAO
CHAIRMAN EMERITUS

DEAR SHAREHOLDERS:

2013 was a good year for the Philippine banking system. It has been healthy and stable. Total resources grew more than sevenfold to P8.1 trillion in the first quarter of 2013 from P1.1 trillion in 1993. Nevertheless, we can say that 2013 was also a very good year for Philippine Business Bank.

Shares in Philippine Business Bank (PBB), the first company to go public this year, surged on its debut in the Philippine Stock Exchange on February 19, 2013. The initial public offering (IPO) was four times oversubscribed, and that the IPO was strategically priced to provide upside to investors.

Net proceeds will finance PBB's lending activities and capital expenditure requirements in connection with its branch network expansion program, including the acquisition of new branch licenses, the development and implementation of IT infrastructure and applications projects.

I am delighted to report that our performance in 2013 reflected our operational excellence and was in line with our expectations:

- We delivered a net profit of P1.004 billion – once again topping our prior-year by 53 percent.
- PBB's loan portfolio reached P31.60 billion from the registered P20.869 billion in 2012. Thus, a significant 51 percent growth.
- A 43 percent increase from last year's performance in total deposits amounted to P37.882 billion from P26.449 billion last year.
- The shareholder equity has increased to P7.026 billion, and is validated by the inclusion of PBB in publicly listed companies.
- Our total resources grew significantly by 42 percent from P33.104 billion in 2012 to P47.158 billion this year.
- The Banks' capital adequacy ratio (CAR) hovered around 24.3 percent and the TIER 1 CAR is 23.4 percent, as this is significantly above the 10 percent minimum requirement of the BSP. PBB demonstrates higher ability to absorb losses based on latest stress test results and is adequately capitalized to expand its operations.

Yes, we invested significantly behind our branches. As PBB ended the year by hitting the 100th branch mark, our footprints will continually be felt nationwide and our accessibility for prospects for small and medium businesses in search of capital is guaranteed. Philippine Business Bank sees continued growth opportunity through the SME market. In fact, the SME segment takes the biggest share of the pie of our loan portfolio.

With our vision of being the lender of choice by the SMEs, PBB recently joined the Philippine Franchise Association which is also a way of supporting national development. This also supports the company's aim to help these small and medium businesses grow especially that they significantly contribute to the country's economic progress.

Our membership with FINEX has given the Bank an edge to be a registered lender to Finex's SME Loan Portal where small and medium enterprises post their loan requirements and allow the lenders to view their information and be able to communicate directly to these potential borrowers for further loan negotiations.

PBB, being young in the banking industry, takes pride to mention that we have won the Philippines Domestic Technology and Operations of the Year award given by the Asian Banking & Finance during the Wholesale Banking Awards. This award brings honor not only to us but to the entire Philippine banking industry.

Being chosen based on innovation – where strategy, service or product makes it different from others; effectiveness - how it benefits the market as a whole; and dynamism - how adaptive and flexible it is to changes as it seeks progressive opportunities, inspire us to have a better foresight to positively impact on, not just the our organization, but also the industries and sectors that surround us.

2013 was more than just a year of strong financial figures for PBB. We also established key strategic milestones for the future. Among other things, we gave our organization additional momentum through a comprehensive structural and management realignment.

PBB has proven to be extremely resilient, robust and forward-looking, despite the natural calamities that struck our country. This is due first and foremost to the 892 people now working for our Bank, all of whom put their skills and their entire energy at the service of our Company. My colleagues and I on the Board of Management are proud of this team – and we would like to thank them for their hard work and passionate commitment over the past twelve months. To show our gratitude, when income warrants, performance bonus is given to deserving employees.

Regardless of whether there is an upturn or a downturn going on, our goal is to ensure that Philippine Business Bank reaches the top of the banking industry in the years to come. We are focusing all our efforts and energy on achieving this goal. At our best, in the process, we are keeping our sights firmly on all those who – rightly – expect a lot from us: our clients and employees, our business partners, suppliers, communities, and of course you, our shareholders.

Together, and with your ongoing trust and support, we can continue our successful course with all our strength and vigor. We will make things happen...today!

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FRANCIS T. LEE
CHAIRMAN

OUR OPERATIONAL HIGHLIGHTS

"We are widening our reach, our loan portfolio and improving our competitive position. We will continue to manage our business prudently, with the aim of being profitable while maintaining the patronage of our satisfied clientele."

PETER N. YAP
VICE CHAIRMAN

BRANCH BANKING

Philippine Business Bank believes that continually branching out will be a wise move for the long term. Since 1997, PBB has been able to serve clients from various industries. As it honors its 16th anniversary, the Bank continues to answer the market's growing needs.

Expanding its branch network, Philippine Business Bank has opened 22 new business units throughout the country to increase banking infrastructure in the restricted and non restricted areas. The Bank, with its comprehensive bouquet of products and services, is now present in major cities and provinces of the country. The number of branches stood at 100, as of December 31, 2013.

PBB's branches showcase efficient and dynamic banking technologies which achieved PBB's objective to transform branches from being a mere transaction outlet to "Service Oriented Branches," thus shifting the focus from providing plain vanilla transactions to personalized services.

ACCOUNT MANAGEMENT

As the Bank celebrated its sixteenth year, Management embarked on a program of continuity with change. Changes to improve the internal credit process, skills enhancement of Account Management personnel through intensive trainings, structural changes in the Lending organization to accommodate growing demand for loans. Notwithstanding, PBB did not lose sight of portfolio quality as well as portfolio diversification.

As envisioned by the Chairman Emeritus, Amb. Alfredo M. Yao, PBB has made conscious effort to focus on the SMEs which runs parallel with the bank's strategy of expanding and opening more branches nationwide. PBB's goal is to be the lender of choice of the SMEs because it understands their needs and helps them attain their aspirations.

In a way, PBB has contributed to many local economies by providing support to the SMEs in terms of financing needs. Among the sectors that have benefited include agriculture, transportation, tourism, retail, handicrafts among others. To-date, 60% of PBB's portfolio is SMEs.

Growing SMEs was the thrust of PBB in 2013, and shall still be in the years to come. This is possible because of the men and women in the organization who believe in the importance of the SMEs. PBB undertakes to raise the bar on customer service with the objective to increase customer satisfaction.

TRUST

All investment activities of the Bank are carried out by a team of professionals. Investment guidelines laid down by the Bangko Sentral ng Pilipinas are strictly adhered to and form the basis of the Bank's investment policy.

The Funds currently managed by the Bank are: PBB Diamond Fund; Living Trust; Escrow Agency; Mortgage Trust and Investment Management Arrangement for Personal and Corporate Accounts.

Assets held in Trust stood at P6.892 billion as of December 31, 2013, which posted an annual growth of 336 percent from P1.58 billion portfolio reported during the same period last year.

Trust portfolio comprised mainly of Investment Management Accounts (IMA) that accounted for 92.87 percent of the total Trust portfolio, Trust and Other Fiduciary Accounts (TOFA) which contributed 5.62 percent and Unit Investment Trust Fund (UITF) which posted 1.51 percent of the total Trust Assets.

TREASURY

Despite having witnessed financial meltdown across the globe, the result of a number of bank failures and of a decline in stocks and commodity prices worldwide, Treasury played a distinct role in maintaining the bank's high tempo of growth.

In 2013, Treasury has raised a total investment amounting to P6.362 billion as of December 31 and US $59 million in dollar denominated bonds. This is a 31 percent annual growth from previous year's P4.856 billion and a 107 percent increment for dollar denominated bonds from last year's US $28 million.

Treasury's portfolio comprised mainly of 80.34 percent Government Securities and the remaining 19.63 percent form corporate bonds.

In the year 2013, banking relationships were greatly focused on corporate clients who stand as strong pillars for the bank's expansion. It remained PBB's constant endeavour to focus on requirements of our customers, and to strive to leverage with improved technology to provide highest levels of service to the banking community. Treasury also developed a business relationship with major banks around the globe that has helped to achieve large credit lines as a further diversification of funding source. Treasury continues to work ceaselessly to become the preferred provider of banking services that target retail as well as wholesale customer segments.

"Market conditions remain challenging, but we have made progress both financially and in progressively executing our strategy."

ROLANDO R. AVANTE
PRESIDENT & CEO

OUR OPERATIONAL HIGHLIGHTS

Treasury's key success is built on the latest technology, and sound ethical practices combined with efficiency and effectiveness.

In fact, during the first month of 2013 PBB has signed a contract with CCK Financial Solutions Ltd. (CCK), a leading provider of treasury management solutions, for the acquisition of Guava Suite - CCK's treasury management and wholesale banking system.Guava will be used to manage PBB's entire treasury operation, covering dealing, risk management, settlement, accounting and reporting.

INFORMATION TECHNOLOGY

For 2013, the Bank embarked upon a series of improvements aimed at supporting the targeted business growth, and at the same time maintaining best practices in the industry in a number of key areas of information technology (IT). The use of cutting-edge technologies for technology operation efficiency, improved security policies and the automation/re-engineering of operational processes were selected to provide assurance for the Bank and its customers.

The Bank's Data Center underwent a transformation process through the acquisition of new virtual technology and equipment to support the Bank's target growth and improve the enterprise - wide disaster recovery system. This transformation process which started at the beginning of the year has already been put in place, while the improved disaster recovery system will be in full swing by mid 2014. Process re-engineering through automation was also completed through the upgrade of the Bank's General Ledges System and the automation of the Bank's TRUST-IMA/TOFA. In addition, automation of the Treasury Operations came to a near completion when parallel run on operations was performed at the close of 2013.

The Bank gained international recognition as the "Philippines Domestic Technology and Operations Bank of the Year" during the Asian Banking and Finance Wholesale Banking Awards 2013 held at the Shangri-la Hotel in Singapore. Asian Banking and Finance is a magazine published by Charlton Media Group that dwells on commercial and retail banking as well as the securities market. Innovativeness, effectiveness and dynamism were the primary reason behind PBB's recognition.

Earlier this year, Fairfax Media, an Australian company, entered PBB into the top 15 finalist in the emerging technologies category. PBB was the only Philippine Bank that made it as a finalist.

The bank's forward-looking strategy continues to drive the need for constant assessment, change and improvements. At ITG, we look forward to answering these challenges as we lead the Bank through specific and strategically targeted IT solutions.

HUMAN RESOURCES

The management of the Bank continues to recognize that the employees are its greatest asset. Realizing the need to have the best people creates a competitive organization. The Bank continues to keep its staff happy by rewarding performance and granting generous salary increases through annual appraisals and promotions.

TRAINING UNIT

For the enhanced performance of any organization, it is important that its human resources are kept abreast of new developments and possess the relevant skills. To realize this, our Training Unit proactively looks after employees' training needs to meet and exceed recognized standards.
One approach to achieve this is by investing in in-house training, utilizing the services of reputable training providers and making use of the Bank's training facilities.

The Training Unit continued to organize the new employees' orientation programs for 220 new employees. The Training Unit was very active during the year where it has organized 21 in-house training courses – AMLA as the training with the most number of runs, 20 runs with 604 attendees.

For the external training, 62 courses were coordinated. The Training Unit has sent 7 participants to "BSP Updates on New Regulations Foreign Exchange Rules Liberalization and BASEL III" conducted by BAIPHIL. Numerous seminars were also attended by the officers and staff of the Bank on the different regulations set by BSP to update and equip the Bank of the impact these regulations have on PBB's products and services.

Training programs in customer service and service quality workshops were also conducted to promote the service culture of the Bank where personal and procedural dimensions are addressed for effective customer service. Seminars for marketing of bank products and services, and other sales programs are given to employees to foster the sales culture of the Bank, to generate more income and increase the market base of PBB. Credit quality programs have also been conducted for account and marketing officers through the Core Credit Course. This is in parallel with PBB's strategy to strengthen its loan portfolio and be the lender of choice of the SMEs. The Branch Officers Development Program was also conducted to prepare qualified staff to be junior officers for branch operations.

RECRUITMENT UNIT

Once again, the Recruitment Unit has achieved its set target in recruiting a good number of high calibre candidates. With these attractions, it has allowed the candidates a chance to fulfill their aspirations and to promote their ideas into a healthy professional environment that will make them into tomorrow's leaders and successors.

PBB's Recruitment Unit is present in certain events such as annual job fairs in different universities and colleges, based in Metro Manila. PBB's continued participation in the Employers Confederation of the Philippines (ECOP) annual conference gives the Bank the opportunity to attract high calibre graduates from universities and excellent applicants all over the country. PBB's mission for these young graduates is to give them intense on-the-job training in various aspects of banking which will allow them to develop their career path in becoming PBB's second line future managers.

OUR CORPORATE GOVERNANCE

The Board of Directors, Management and Staff, and Shareholders of PBB believe that corporate governance is an indispensable component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create and sustain awareness within the organization. Hence, the Board of Directors, Management, and Staff of the Bank commit to the principles and best practices set forth in the Board approved Corporate Governance Manual, and acknowledge that the same shall guide the Bank in the attainment of its corporate goals. A copy of the Manual was provided to the BSP and the SEC.

As a banking institution publicly listed in the Philippines, it is regulated and supervised by the BSP and the SEC. The Bank's activities are subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791), Corporation Code of the Philippines, and other laws such as the Anti-Money Laundering Act, as amended (Republic Act No. 9160, as amended).

BOARD STRUCTURE

PBB has been approved by the Securities and Exchange Corporation (SEC) to have ten (10) elected directors per its Amended Articles of Incorporation dated February 27, 2013.

The position of a bank director is a position of trust and confidence. A director assumes certain responsibilities to different constituencies or stakeholders (e.g. the bank itself, its stockholders, its depositors and other creditors, its management and employees, and the public at large). These constituencies or stakeholders have the right to expect that the Bank is being run in a prudent and sound manner. The Board of Directors is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance, and corporate values. Further, the Board of Directors is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day to day affairs of the institution.

To aid the Bank in complying with the principles of good governance, the Board constitutes the following Committees:

1. CORPORATE GOVERNANCE / NOMINATION COMMITTEE

The Committee's primary objective is the development, implementation and review of the Bank's Corporate Governance Program, which includes a set of effective corporate governance policies and procedures applicable to its business. It is the same committee responsible for the pre-screening and shortlisting of all candidates nominated to become members of the Board of Directors in accordance with the qualifications and disqualifications provided for under the Manual of Corporate Governance. This same committee also reviews and evaluates the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors.

2. MANPOWER, COMPENSATION AND REMUNERATION COMMITTEE

This Committee is responsible for the establishment of a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors. They also provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the bank's culture, strategy and control environment.

3. EXECUTIVE COMMITTEE

This Committee has been delegated by the Board of Directors with some of its powers and responsibilities as provided for in the by-laws, including but not limited to the supervision of other board committees and subject to the limitations and restrictions as may be imposed by the Board of Directors.

4. RISK OVERSIGHT COMMITTEE

The Committee is responsible for the development and oversight of the risk management program for the Bank and its Trust unit. The members of the Committee possess a range of expertise as well as adequate knowledge of the institution's risk exposures necessary in the development of appropriate strategies for preventing losses and minimizing the impact of losses when they occur. They oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

5. AUDIT COMMITTEE

The Committee has been delegated by the Board of Directors with authority to provide oversight of the Bank's internal and external auditors. It is responsible for the setting-up of the Internal Audit Center and the appointment of the internal auditor and the external auditor. It also monitors and evaluates the adequacy and effectiveness of the internal control system of the Bank.

6. TRUST COMMITTEE

The Committee is a policy-making body responsible in overseeing the Trust and Investment Center of the Bank. It formulates and endorses policies for approval of the Board, including guidelines on administration, processes, and investments held in its capacity as trustee related to its fiduciary accounts.

MONITORING COMPLIANCE TO CORPORATE GOVERNANCE PRINCIPLES AND STANDARDS

To ensure that there is consistent application of the principles of good corporate governance as detailed in the Manual of Corporate Governance approved by the Board of Directors, PBB adopted a self-evaluation methodology to evaluate and measure the performance of its Board of Directors as a body, its board committees, the individual directors and senior management. The self-evaluation is conducted every year, the result of which is submitted to the Compliance Office for consolidation and reporting to the Corporate Governance Committee, at least thirty (30) days prior to the yearly Stockholders' Meeting.

PBB has adopted a "COMPLIANCE MONITORING AND ASSESSMENT" policy to ensure full institutional compliance with the adopted leading practices on good corporate governance. This includes, among others, the regular reporting of the Board Committees to the Board of Directors; evaluation system established by the Compliance Office to measure compliance with the Manual of Corporate Governance and implement sanctions in case of breach; annual review of the Manual; inclusion of monitoring compliance with applicable laws, rules and regulations and corporate policies, procedures and standards of conduct to prevent possible deviations that might result in compliance concerns; and the regular compliance testing on all units performed by the Compliance Office and its Compliance Coordinators.

RELATED PARTY TRANSACTIONS

Part of good corporate governance is the Bank's adherence to its policy governing related party transactions.

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

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

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

The Bank's related parties include entities under common ownership, key management and others. Related party transactions include Loans and Deposit Liabilities amounting to PHP6.99 billion as of December 31, 2013. Details of the Bank's exposure to related parties are shown in the Notes to Financial Statements (NFS) No. 24.

DIRECTORS AND PERSONNEL COMPENSATION

A Non-Executive Director (NED) receives per diem allowance of P20,000.00 for his attendance to each meeting of the Board and P5,000.00 allowance for attendance in a committee meeting. An NED is also entitled to a P5,000.00 monthly gasoline allowance. The Executive Board Members as well as the employees of the Bank, receive fixed salaries and performance bonus, if and when income warrants.

OUR RISK MANAGEMENT

PBB, as a financial institution, is in the business of risk taking. As such, it is exposed to credit, market and liquidity, and operational risks. Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio. Liquidity risk may arise from shortage in funding and/or lack of market for sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events, including legal risk.

To minimize losses, PBB carefully manages these risks through a process of identification, measurement, and monitoring compliance to prudent limits and stringent controls as established in its risk management framework and governance structure. The Bank acknowledges that the ability to manage risks effectively is vital in sustaining its growth, support business objectives, continue creating value for its shareholders, and identify opportunities. Hence, the Bank adopts risk management best practice beyond what is just required under thrift banking regulations.

With its fast growing business, the Bank is committed to adopt an integrated approach to better manage its growing risks. The Bank adopts an Enterprise Risk Management (ERM) framework as its integrated approach to the identification, measurement, control and disclosure of risks. The ERM framework provides an integrated process of planning, organizing, leading, and controlling its activities in order to minimize the effects of risk in its capital and earnings. The Bank's BOD formulates the corporate risk policy, sets risk tolerances and appetite, and provide risk oversight function through the Risk Oversight Committee (ROC), which in turn supervises the Chief Risk Officer and Head of the Risk Management Center in the development and implementation of risk policies, processes and guidelines. The framework covers operational, market and liquidity, credit and counterparty and other downside risks within the context of the supervision by risk guidelines of the BSP and aligned with best practices on risk management.

CAPITAL ADEQUACY

The Bank ensures that it operates within the regulatory capital framework prescribed by the BSP. The Bank utilizes the Standardized Approach for the regulatory capital calculation related to its credit and market risk exposures and the Basic Indicator Approach for its operational risk exposures. For the year 2013, PBB remains very strong in terms of regulatory capital requirement. Its capital adequacy ratio (CAR) as of 31 December 2013, as audited, stands at 26.3% compared to the 10.0% minimum set by the BSP. The corresponding Net Tier 1 ratio is also very strong at 25.3%.

Table-1 shows the comparative capital and risk weighted asset (RWA) composition of PBB and the corresponding capital adequacy ratio (CAR) and Net Tier 1 ratio for the years ending 2013, 2012, and 2011.

(Amounts in P0.000 million)

Item	Nature of Item	2013	2012	2011
A.	Tier 1 (Core plus Hybrid) Capital			
A.1	Core Tier 1 Capital			
(1)	Paid up common stock	3,433	2,420	420
(2)	Deposit for common stock subscription	0	0	0
(3)	Paid-up perpetual and non-cumulative preferred stock	620	620	245
(4)	Deposit for perpetual and non-cumulative preferred stock subscription	0	0	0
(5)	Additional paid-in capital	1,998	0	0
(6)	Retained earnings	1,044	385	1,743
(7)	Undivided profits	1,006	654	747
(8)	Net gains on fair value adjustment of hedging instruments in a cash flow hedge of available for sale equity securities			
(9)	Cumulative foreign currency translation			
(10)	Minority interest in subsidiary financial allied undertakings (i.e., RBs and venture capital corporations (VCCs) for TBs, and RBs for Coop Banks) which are less than wholly-owned (for consolidated basis) 1/			

Item	Nature of Item	2013	2012	2011
(11)	Sub-total *[Sum of A.1 (1) to A.1 (10)]*	8,102	4,080	3,155
A.2	Deductions from Core Tier 1 Capital			
	Common stock treasury shares (for consolidated basis)			
(2)	Perpetual and non-cumulative preferred stock treasury shares (for consolidated basis)			
(3)	Net unrealized losses on available for sale equity securities purchased			
(4)	Unbooked valuation reserves and other capital adjustments based on the latest ROE as approved by the Monetary Board			
(5)	Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses	(8)	(7)	(9)
(6)	Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates, net of allowance for credit losses			
(7)	Deferred tax asset, net of deferred tax liability 2/	(250)	(219)	(147)
(8)	Goodwill, net of allowance for losses 3/			
(9)	Total Deductions *[Sum of A.2 (1) to A.2 (8)]*	(258)	(226)	(156)
A.3	Total Core Tier 1 Capital *[A.1 (11) minus A.2 (9)]*	7,843	3,854	2,999
A.4	Hybrid Tier 1 Capital	0	0	0
	Perpetual preferred stock			
(2)	Perpetual unsecured subordinated debt			
(3)	Total Hybrid Tier 1 Capital *[Sum of A.4 (1) and A.4 (2)]*	0	0	0
(4)	Eligible Hybrid Tier 1 Capital *[limited to 17.65% of Total Core Tier 1 Capital (Item A.3)]*	0	0	0
A.5	Total Tier 1 Capital *[Sum of A.3 and A.4 (4)]*	7,843	3,854	2,999
B.	Tier 2 (Supplementary) Capital	0	0	0
B.1	Upper Tier 2 Capital			
	Paid-up perpetual and cumulative preferred stock			
(2)	Deposit for perpetual and cumulative preferred stock subscription			
(3)	Paid-up limited life redeemable preferred stock with the replacement requirement upon redemption			
(4)	Deposit for limited life redeemable preferred stock subscription with the replacement requirement upon redemption			
(5)	Appraisal increment reserve – bank premises, as authorized by the Monetary Board			
(6)	Net unrealized gains on available for sale equity securities purchased (subject to a 55% discount)			
(7)	General loan loss provision *[limited to 1.00% of total credit risk-weighted assets computed per Part I, Item B.1(d)]*	284	180	121
(8)	Unsecured subordinated debt with a minimum original maturity of at least 10 years (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)			

Item	Nature of Item	2013	2012	2011
(9)	Hybrid Tier 1 Capital (in excess of the max allowable 15% limit of total Tier 1 capital) *[A.4 (3) minus A.4 (4)]*	0	0	0
(10)	Sub-total *[Sum of B.1 (1) to B.1 (9)]*	284	180	121
B.2	Deductions from Upper Tier 2	0	0	0
	Perpetual and cumulative preferred stock treasury shares (for consolidated basis)			
(2)	Limited life redeemable preferred stock treasury shares with the replacement requirement upon redemption (for consolidated basis)			
(3)	Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption			
(4)	Net losses in fair value adjustment of hedging instruments in a cash flow hedge of available for sale equity securities			
(5)	Total Deductions *[Sum of B.2 (1) to B.2 (4)]*	0	0	0
B.3	Total Upper Tier 2 Capital *[B.1 (10) minus B.2 (5)]*	284	180	121
B.4	Lower Tier 2 Capital	0	0	0
	Paid-up limited life redeemable preferred stock without the replacement requirement upon redemption (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)			
(2)	Deposit for limited life redeemable preferred stock subscription without the replacement requirement upon redemption			
(3)	Unsecured subordinated debt with a minimum original maturity of at least 5 years (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)			
(4)	Sub-total *[Sum of B.4 (1) to B.4 (3)]*	0	0	0
B.5	Deductions from Lower Tier 2	0	0	0
	Limited life redeemable preferred stock treasury shares without the replacement requirement upon redemption (for consolidated basis)			
(2)	Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption (limited to the balance of redeemable preferred stock after applying the cumulative discount factor)			
(3)	Total Deductions *[Sum of B.5 (1) and B.5 (2)]*	0	0	0
B.6	Total Lower Tier 2 Capital *[B.4 (4) minus B.5 (3)]*	0	0	0
B.7	Eligible Amount of Lower Tier 2 Capital *(limited to 50% of total Tier 1 capital per Item A.5)*	0	0	0
B.8	Total Tier 2 Capital *[Sum of B.3 and B.7]*	284	180	121
B.9	Eligible Amount of Tier 2 Capital *(limited to 100% of total Tier 1 capital per Item A.5)*	284	180	121

Item	Nature of Item	2013	2012	2011
C.	Gross Qualifying Capital *(Sum of A.5 and B.9)*	8,127	4,034	3,120
	Total Tier 1 Capital *(Item A.5)*	7,843	3,854	2,999
(2)	Total Tier 2 Capital *(Item B.9)*	284	180	121
D.	Deductions from Tier 1 and Tier 2 Capital	0	0	0
	Investments in equity of unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for solo basis)			
(2)	Investments in other regulatory capital instruments of unconsolidated subsidiary RBs for Coop Banks (for solo basis)			
(3)	Investments in equity of unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases)			
(4)	Significant minority investments (20%-50% of voting stock) in banks and other financial allied undertakings (for both solo and | consolidated bases)			
(5)	Reciprocal investments in equity/other regulatory capital instruments of other banks/quasi-banks/enterprises			
(6)	Total Deductions [Sum of D (1) to D (5)]	0	0	0
E.	Net Tier 1 and Tier 2 Capital			
E.1	Net Tier 1 Capital 4/ *{C (1) minus [D (6) multiply by 50%]}*	7,843	3,854	2,999
E.2	Net Tier 2 Capital 4/ *{C (2) minus [D (6) multiply by 50%]}*	284	180	121
F.	Total Qualifying Capital *[C minus D (6)]*	8,127	4,034	3,120
G.	Risk Weighted Assets			
G.1	Credit Risk Weighted Assets	30,820	20,673	12,516
G.2	Market Risk Weighted Assets	829	0	0
G.3	Operational Risk Weighted Assets	1,832	717	0
G.4	Total Risk Weighted Assets	33,480	21,390	12,516
H.	Capital to Risk Assets			
H.1	Capital Adequacy Ratio (F divide by G.4)	24.3%	18.9%	24.9%
H.2	Tier 1 Capital to Risk Weighted Assets (A.5 divide by G.4)	23.4%	18.0%	24.0%

Table-1. PBB's Capital and RWA Composition with the CAR and Net Tier 1 Ratio for years ending 2013, 2012, and 2011

OUR RISK MANAGEMENT

CREDIT RISKS

The Bank boasts of its knowledge of the SME segment as one of its strengths. The Bank recognizes that its qualitative credit risk assessment process driven by this competitive advantage is catalyst to the sustainable growth of its quality loan portfolio and income stream. Moreover, this is done in conjunction with qualitative credit risk assessment of its loan portfolio. The Bank has a very thorough pre-approval screening of loan accounts and has taken the initiative to implement an internal credit scoring model to measure and monitor credit risks for its covered portfolio. This is complemented by a regular credit review process as well as monthly portfolio risk evaluation to identify risk trends and credit risk red flags. The Bank sets aside adequate loss provisions to cover for its credit risks consistent with BSP regulations and accounting standards.

Figures 1, 2, 3, and 4 show the Bank's Loans and Discounts selected credit risk profile for the years ending December 2013, December 2012, and December 2011 (amounts in Million Pesos).

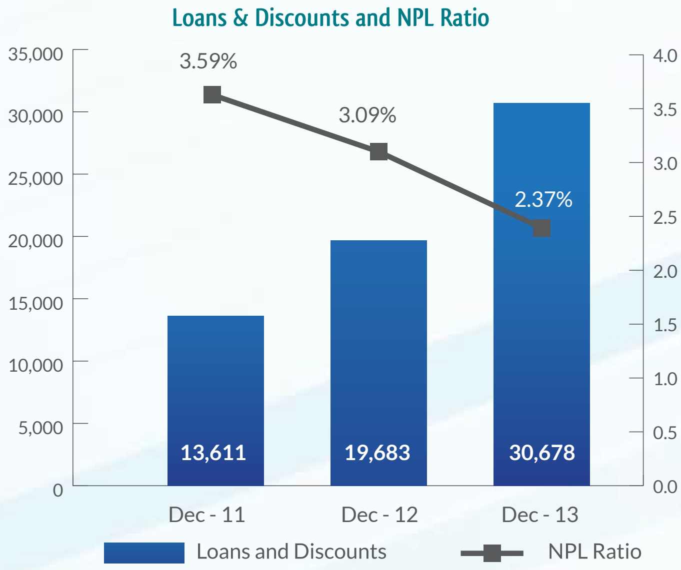


Figure 1. Loans & Discounts and NPL Ratio

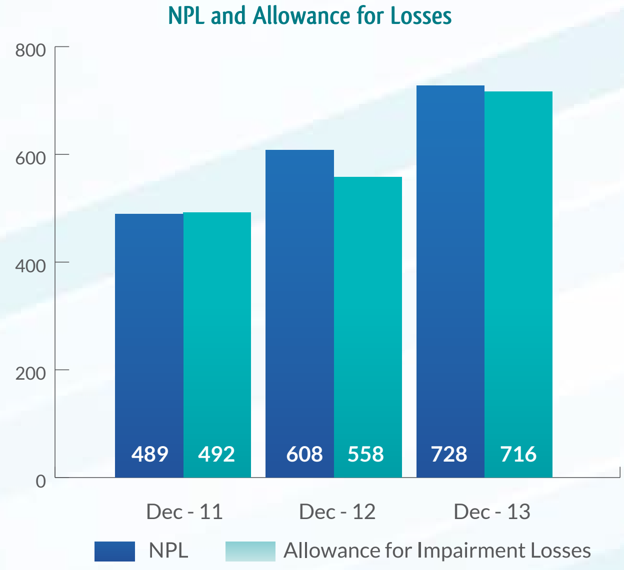


Figure 2. NPL and Allowance for Losses

[1] *Implementation of Basel 1.5 for Stand Alone Thrift Banks in 2012 required the inclusion of operational risk weighted assets using the Basic Indicator Approach; PBB's approval for a Type 3 Limited End-User Derivatives Authority requires that the Bank also set aside market risk capital charge. However, the Bank has zero trading portfolio for 2012.*

In recognition of the need for risk management measures to complement its continuously growing loan portfolio, the Bank has initiated a bank-wide credit process streamlining program in 2013 to ensure that commensurate controls are in place while the Bank continues to device ways to improve its credit process and service delivery. The Bank also has instituted improvements in its credit policies, which includes stricter monitoring of large exposures and credit concentrations to ensure portfolio diversification.

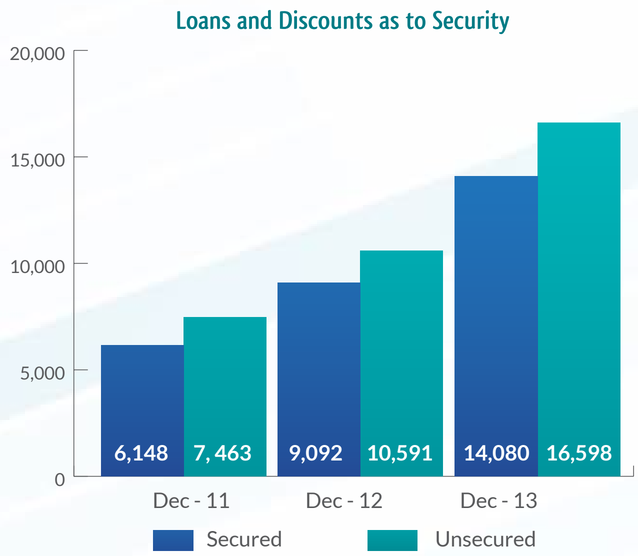


Figure 3. Loans and Discounts as to Security

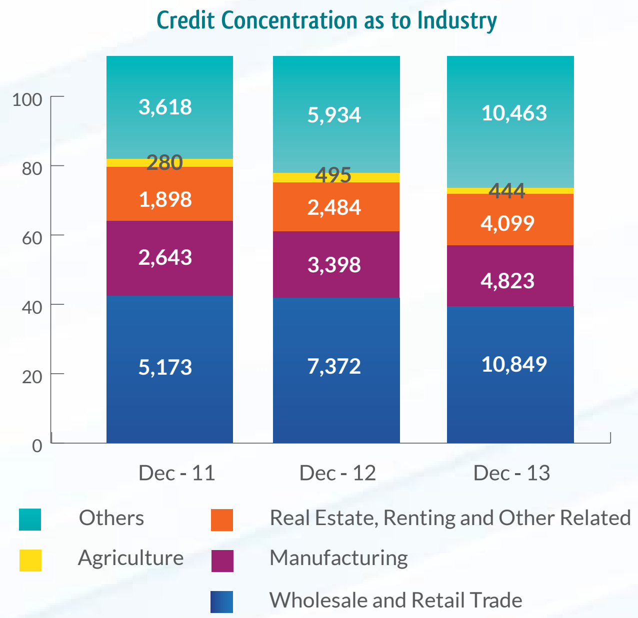


Figure 4. Credit Concentration as to Industry

MARKET RISKS

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets that are either carried in the banking book or held as positions in the trading book (financial instruments), mismatches in the contractual maturity of its assets and liabilities, embedded optionality in the loans and deposits due to pre-terminations, and potential cash run offs arising from changes in overall liquidity and funding conditions in the market. Market risk related to the Bank's financial instruments includes foreign currency, interest rate and price risks.

For 2013, the Bank invested in a new Treasury system which took its share in terms of improvement in operational efficiency, robust risk measurement tools, and timely reporting and monitoring facilities. The system has automated the trading (front office), settlements and control (back office), and risk measurements and analyses (middle office) processes. This includes, among others, the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and preset value-at-risk (VaR) calculations. The Bank utilizes the delta-normal model for its VaR calculations and is complemented by regular stress testing and backtesting procedures.

The Bank continues to review its treasury limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover for risk exposures.

Table-2 shows the Bank's VaR and sensitivities to interest rate movements of its AFS and HFT portfolio for the years ending December 2013, December 2012, and December 2011 (amounts in Million Pesos).

Market Risk *Amounts in Million Pesos*			
	Dec - 11	Dec - 12	Dec -13
Investment Securities			
HFT and AFS	5,919	5,785	8,826
VaR	309	351	213
Sensitivity to Interest Rate			
+100 bps	(639)	(655)	(1,094)
+300 bps	(1,916)	(1,964)	(3,281)
+500 bps	(3,194)	(3,274)	(5,468)

Table-2. PBB's VaR and Interest Rate Sensitivity

LIQUIDITY AND INTEREST RATE RISKS

PBB stands by its reputation in high regard as evidenced by the faithful performance of its commitments and by upholding the trust bestowed upon it by its clients. This, and the management of potential losses related to funding and trading liquidity are the reasons the Bank seriously manages liquidity risks. It has a functional Asset and Liability Committee which oversees the regular liquidity management of the Bank through the Treasury Services Group and with oversight from the Board through the Risk Oversight Committee. The Bank performs regular liquidity gap reports wherein asset, liability, and capital accounts for both on and off balance sheets items are slotted into time buckets based on contractual or observed maturities and the net liquidity position is determined per time bucket and on a cumulative basis. This is compared with Board-approved limits to ensure that the Bank's cumulative net liquidity outflow may be covered by its known available funding. The Bank also has a comprehensive Liquidity Contingency Plan which identifies specific fund sources during potential liquidity crunch scenarios. Stress testing is also done regularly to complement its liquidity risk measurement tools.

Figure 5 shows the cumulative liquidity gap position of the Bank, including on and off balance sheet items, for the years ending December 2013, December 2012, and December 2011 (amounts in Million Pesos).

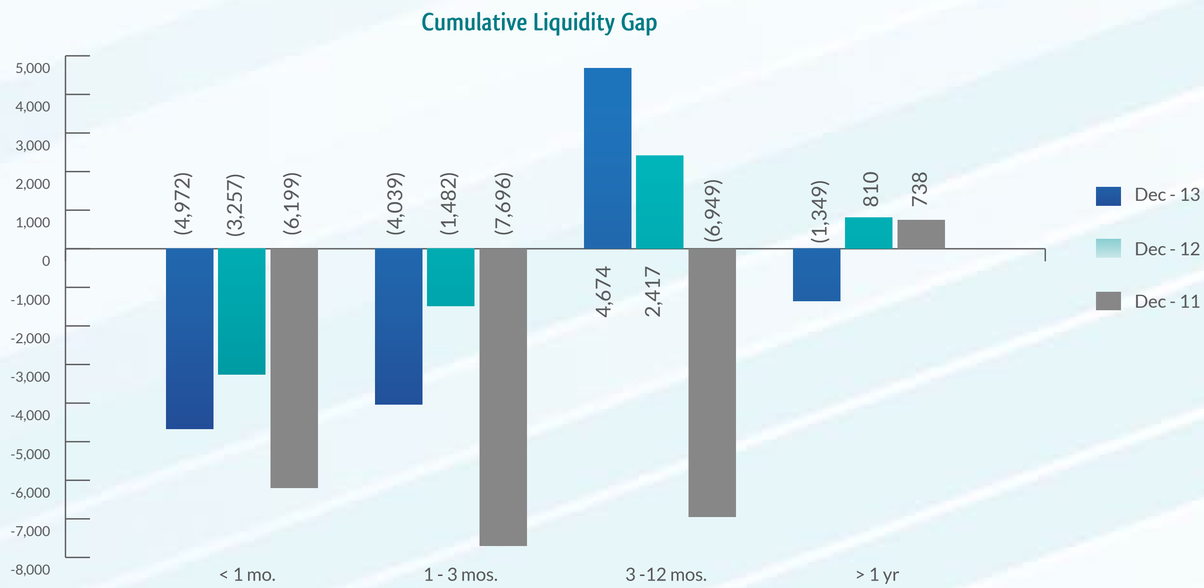


Figure-5. PBB's Cumulative Liquidity Gap

PBB is also very keen in its interest rate gap position. Management uses repricing gap reports, earning-at-risk (EAR), and sensitivity analysis to lookout for the potential effect of a rising or a falling interest rate scenario to the Bank's interest income objective. Management monitors compliance to set EAR limits regularly to ensure that interest rate risks sought are within the bounds set by the Board.

Figure 6 shows the cumulative interest rate gap position of the Bank for the years ending December 2013, December 2012, and December 2011 (amounts in Million Pesos).

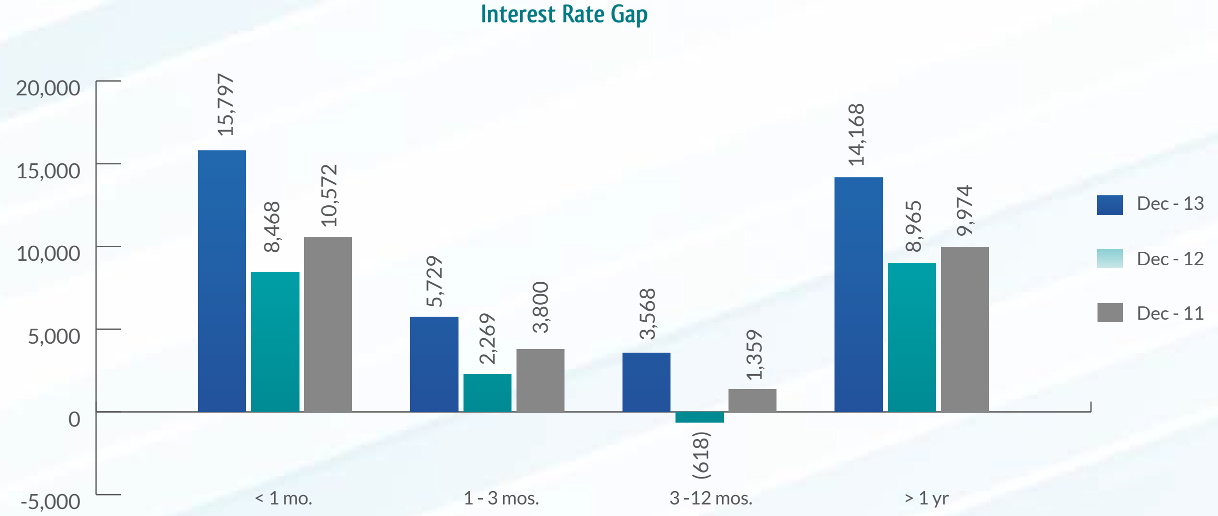


Figure-6. PBB's Interest Rate Gap

OPERATIONAL, LEGAL, AND OTHER RISKS

The Bank integrates into its risk management system the management of its operational and other risks. Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. These risks are the sum total of all risks faced by the Bank other than credit, market, and liquidity risks.

The Bank has developed an internal risk assessment methodology and operational risk data collection linked to the management of its operational risks. It also has a risk control system to reduce risk, manage operational disruption, ensure business continuity, reduce overall cost, and improve service efficiency. The Bank also has a compliance system to ensure adherence to local and global regulatory standards as well as internal policies. PBB also promotes a corporate risk culture and sensitivity to potential losses through regular trainings and ongoing bankwide risk awareness program.

As part of its operational risk management program, the Bank has completed its bank-wide operational risk and control self-assessment (ORCSA) in support of the enterprise risk management thrust of the Bank. With this is also an enterprise-wide training on risk awareness. This will ensure appreciation and measurement of the key risks of each unique business and support units of the Bank and how these relate to the over-all objectives and strategies.

The Bank values the confidentiality, availability, and integrity of all the information it holds. This includes the protection of client information to the full extent allowable under the law and the Bank's internal policies as well as the utmost protection of its clients utilizing information technology systems. To uphold this, the Bank regularly updates its information security policies and make sure that it is properly implemented and disseminated across all units of the Bank.

OUR BOARD OF DIRECTORS

ALFREDO M. YAO
CHAIRMAN EMERITUS

FRANCIS T. LEE
CHAIRMAN
MANPOWER, COMPENSATION AND RENUMERATION COMMITTEE
EXECUTIVE COMMITTEE
TRUST COMMITTEE
CREDIT COMMITTEE
ASSET AND LIABILITY COMMITTEE
BID COMMITTEE
REMEDIAL AND SPECIAL ASSETS COMMITTEE
ANTI-MONEY LAUNDERING COMMITTEE

PETER N. YAP
VICE CHAIRMAN
MANPOWER, COMPENSATION AND RENUMERATION COMMITTEE
EXECUTIVE COMMITTEE
CREDIT COMMITTEE
ASSET AND LIABILITY COMMITTEE
MANAGEMENT COMMITTEE
COMMITTEE ON EMPLOYEE DISCIPLINE
ANTI-MONEY LAUNDERING COMMITTEE

ROLANDO R. AVANTE
PRESIDENT
MANPOWER, COMPENSATION AND RENUMERATION COMMITTEE
EXECUTIVE COMMITTEE
TRUST COMMITTEE
CREDIT COMMITTEE
ASSET AND LIABILITY COMMITTEE
MANAGEMENT COMMITTEE
COMMITTEE ON EMPLOYEE DISCIPLINE
REMEDIAL AND SPECIAL ASSETS COMMITTEE
ANTI-MONEY LAUNDERING COMMITTEE

HONORIO O. REYES-LAO
DIRECTOR
RISK OVERSIGHT COMMITTEE
TRUST COMMITTEE

JEFFREY S. YAO
DIRECTOR
RISK OVERSIGHT COMMITTEE
AUDIT COMMITTEE
CREDIT COMMITTEE

AMADOR T. VALLEJOS, JR.
DIRECTOR
CORPORATE GOVERNANCE / NOMINATION COMMITTEE
RISK OVERSIGHT COMMITTEE
AUDIT COMMITTEE
IT COMMITTEE

DR. LETICIA M. YAO
DIRECTOR
TRUST COMMITTEE

ROBERTO A. ATENDIDO
DIRECTOR
RISK OVERSIGHT COMMITTEE
AUDIT COMMITTEE
CORPORATE GOVERNANCE / NOMINATION COMMITTEE

BENJAMIN R. STA. CATALINA, JR.
INDEPENDENT DIRECTOR
CORPORATE GOVERNANCE / NOMINATION COMMITTEE
RISK OVERSIGHT COMMITTEE
AUDIT COMMITTEE

PATERNO H. DIZON
INDEPENDENT DIRECTOR
CORPORATE GOVERNANCE / NOMINATION COMMITTEE
RISK OVERSIGHT COMMITTEE
AUDIT COMMITTEE

OUR MANAGEMENT

ALICE P. RODIL
SVP / HEAD COMPTROLLER
MANAGEMENT COMMITTEE
ASSET AND LIABILITY COMMITTEE
BID COMMITTEE
COMMITTEE ON EMPLOYEE DISCIPLINE
IT COMMITTEE

RAYMOND T. CO
SVP / HEAD OF AMG I
MANAGEMENT COMMITTEE
ASSET AND LIABILITY COMMITTEE
REMEDIAL AND SPECIAL ASSETS COMMITTEE
IT COMMITTEE

JOSEPH EDWIN S. CABALDE
SVP / TREASURER
MANAGEMENT COMMITTEE
ASSET AND LIABILITY COMMITTEE

KEITH S. CHAN
FVP / HEAD OF INFORMATION TECHNOLOGY
MANAGEMENT COMMITTEE
IT COMMITTEE

FELIPE V. FRIGINAL
FVP / HEAD OF BRANCH BANKING
MANAGEMENT COMMITTEE
ASSET AND LIABILITY COMMITTEE
COMMITTEE ON EMPLOYEE DISCIPLINE
ANTI-MONEY LAUNDERING COMMITTEE
BID COMMITTEE
IT COMMITTEE

AGUSTIN E. DINGLE, JR.
FVP / HEAD OF COMPLIANCE
MANAGEMENT COMMITTEE
ANTI-MONEY LAUNDERING COMMITTEE
IT COMMITTEE

AMELITA H. CARRILLO
VP / HEAD OF RISK MANAGEMENT
MANAGEMENT COMMITTEE
IT COMMITTEE

CONSORCIA LUZ G. LAGUNZAD
VP / HEAD OF CONSUMER BANKING
MANAGEMENT COMMITTEE
ASSET AND LIABILITY COMMITTEE

EDUARDO R. QUE
VP / HEAD OF AMG III
MANAGEMENT COMMITTEE
ASSET AND LIABILITY COMMITTEE

FRANCISCO M. LOPEZ
VP / HEAD OF HUMAN RESOURCES
MANAGEMENT COMMITTEE
COMMITTEE ON EMPLOYEE DISCIPLINE

JERRY C. LUCAS
VP / HEAD OF BRANCH OPERATIONS & CONTROL
MANAGEMENT COMMITTEE

JOSELITO D. DE RIVERA
VP / HEAD OF AMG II
MANAGEMENT COMMITTEE
ASSET AND LIABILITY COMMITTEE

OUR MANAGEMENT

ANGELINE ANN H. HWANG
CHIEF LENDING OFFICER (CONSULTANT)
MANAGEMENT COMMITTEE

MANUEL C. VALDEZ
HEAD OF IBG (CONSULTANT)
MANAGEMENT COMMITTEE

ROSELLE M. BALTAZAR
VP / HEAD OF COG / ASSISTANT CONTROLLER
MANAGEMENT COMMITTEE
IT COMMITTEE

ATTY. ROBERTO S. SANTOS
VP / HEAD OF LEGAL
MANAGEMENT COMMITTEE
COMMITTEE ON EMPLOYEE DISCIPLINE
REMEDIAL AND SPECIAL ASSETS COMMITTEE
ANTI-MONEY LAUNDERING COMMITTEE

LIZA JANE T. YAO
VP / HEAD OF GENERAL SERVICES
MANAGEMENT COMMITTEE
ASSET AND LIABILITY COMMITTEE
BID COMMITTEE

MIAMI V. TORRES
VP / HEAD OF CREDIT SERVICES
MANAGEMENT COMMITTEE
REMEDIAL AND SPECIAL ASSETS COMMITTEE

EFREN P. MERCADO
VP / HEAD OF BRANCH LENDING UNIT
MANAGEMENT COMMITTEE
ASSET AND LIABILITY COMMITTEE

JUDITH C. SONGLINGCO
AVP / HEAD OF PRODUCT DEVELOPMENT & CORPORATE AFFAIRS
MANAGEMENT COMMITTEE

MA. DORIS G. DE CHAVEZ
AVP / HEAD OF CREDIT REVIEW
MANAGEMENT COMMITTEE

LUNINGNING T. RAMOS
AVP / HEAD OF SYSTEMS & METHODS
MANAGEMENT COMMITTEE
IT COMMITTEE

TERESITA S. SION
AVP / HEAD OF TRUST & INVESTMENT
MANAGEMENT COMMITTEE
ASSET AND LIABILITY COMMITTEE
TRUST COMMITTEE

LAURENCE R. RAPANUT
AVP / HEAD OF INTERNAL AUDIT
MANAGEMENT COMMITTEE
COMMITTEE ON EMPLOYEE DISCIPLINE
BID COMMITTEE

OUR CLIENTS

AGAN LAND CORPORATION

Agan Land Corporation is known for the development of high quality housing projects located in the south. The Company began its operations in 1993, with the approval of National Housing Authority, concentrating in socialized housing in Koronadal City, Mindanao. Their first project was in South Cotabato which eventually expanded to other provinces and cities in the area.

Agan Land has grown to be one of the leading and most active real estate developers in SOCCSKSARGEN (South Cotabato, Cotabato, Sultan Kudarat, Sarangani, and General Santos City) growth area, with projects that produced more than 4,500 housing units to date.

Through more than two decades in the industry, the Company continues to carry out its commitment to improve living conditions and contribute to a better quality of life for Filipinos. Agan Land's sincere dedication to that goal is reinforced by continuous planning, development and expansion to strengthen its presence within the region and meet the growing needs for low cost houses.

Philippine Business Bank played a major role of providing Agan Land with their banking needs for the development of these subdivision projects. PBB's assistance allowed the Company to fast track the completion of one project as it moves on to another housing development. The Company is highly appreciative of PBB's efficient service for gaining easy access to the Bank's facilities for various financing transactions and credit requirements.

In the following years, the Company plans to further expand, improve, and continuously provide affordable homes to Filipino families in the south. With PBB's unwavering support, Agan Land sees a lasting relationship with the Bank as a reliable business partner.

MARIANO RIVERA ONG ANTE
Chairman/President of Agan Land Corporation

LELECITA AGUILA ONG ANTE
VP/CFO of Agan Land Corporation

TARGETLINE MARKETING CORPORATION

Targetline Marketing Corporation is a distributor of high quality food products and general merchandise to households and businesses, operating since 2011. The Company was organized to meet the demands of traditional and affordable range of products considered as part of the Filipino way of life. To Targetline it is not simply about delivering products from manufacturers to customer. It is about building a brand, a tradition and finding a place in the hearts of the Filipinos.

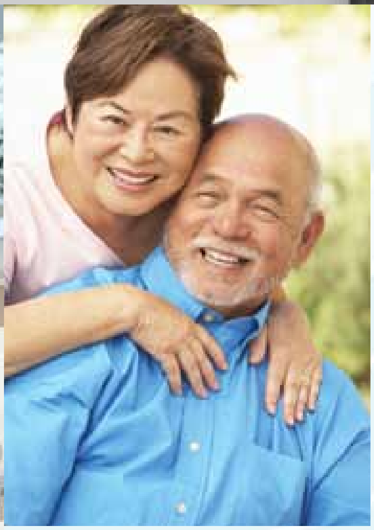
Through the years, Philippine Business Bank has provided Targetline with commercial, industrial and development loans and other banking services, which contributed to its continuous growth. Targetline has come a long way on the strength of PBB's flexible and reliable products and services, that are highly responsive to the varying financial needs of the company.

Philippine Business Bank has been a vital factor in the continuing success of Targetline, as the company looks forward to expand and improve business operations with PBB in step along the way.

OUR EVENT HIGHLIGHTS

MAKING SOLID PROGRESS



PBB is right on track reaching far and wide, expanding its market base and solidifying its presence in the banking industry.

OUR EVENT HIGHLIGHTS

STRONG AND STABLE GROWTH

PBB started operating as a thrift bank 16 years ago, mainly focused on SMEs across the country. The strategic partnerships with businesses in this market segment substantially contributed to the Bank's phenomenal growth.

2013 proved to be another progressive year for Philippine Business Bank with a continuing expansion catering to more SMEs, and generating P3.2 billion from its initial public offering (IPO) in February. The Bank priced its IPO of P101.33 million common shares at P31.50 apiece. It has been doing well in the stock market since then.

PBB President Mr. Rolando Avante, notes that SMEs is a vast market with still a large number untapped, especially in remote areas. Keeping that in mind, PBB plans to continuously expand by opening new branches in the provinces to reach SMEs in the area, earmarking approximately P300 million generated from the IPO for this intended expansion in 2014.

Leveraging on a stellar performance in 2013, the Bank is poised to achieve a solid momentum of growth in the years ahead.

EXPANDING OUR NETWORK

The Philippine Business Bank held its Annual Stockholders' Meeting at the Sofitel Philippine Plaza Manila last June 28, 2013. The event set the stage for defining the Bank's achievements in the prior year, with a firm commitment and optimism to sustain a solid momentum of growth in years to come.

Chairman Francis T. Lee, formally opened the event while, Mr. Rolando R. Avante, PBB's President and CEO delved on the execution of strategies that paved the way to the Bank's sterling performance in 2013. In spite of the difficulties due to a volatile market, PBB was able to rise above the challenges leveraging on banking innovations and strong organization.

PBB was delighted with their attained achievements through the passion and commitment of the organization. It brought in significant results positioning PBB for a promising future in the ever changing trends of the banking industry.

Mr. Avante laid out plans in remaining on top of the game at the same time contributing to the success of their business partners: "We see huge opportunity to drive growth by executing on a very deliberate strategy to transform the marketplace. We're on the ground around the country – identifying key markets, where SMEs abound, connecting with consumers and assessing retail opportunities to help these areas grow economically."

In 2013, PBB opened 22 new branches, bringing its total network to 100 branches across the country. PBB is right on track reaching far and wide, expanding its market base and solidifying its presence in the banking industry.

PBB BAGS PHILIPPINES DOMESTIC TECHNOLOGY AND OPERATIONS BANK OF THE YEAR AWARD

On July 18, 2013, the Philippine Business Bank was awarded the Philippines Domestic Technology and Operations Bank of the Year by Asian Banking and Finance, in a prestigious awards night held at the Shangri-La Hotel in Singapore. With the help of PBB's Information and Technology Group (ITG), the Bank was recognized for delivering efficient products and services to their clients by combining hard work, dedication and a passion for excellence.

Hosted by Rico Hizon of BBC World News, Asian Banking and Finance welcomed and acknowledged a distinctive gathering of 200 well-respected and notable bankers from international and domestic banks who received their respective awards. The awardees were determined by well-known executives and business professionals: Dominic Nixon from PwC, Egidio Zarrella from KPMG,

Mohit Mehrotra from Deloitte Consulting, Liew Nam Soon from Ernst and Young Advisory LLP and Andrew Pitcher from Accenture.

In its seventh year, the Asian Banking and Finance Awards continues to give recognition and honor to the cream of the crop in the banking and finance industry all over Asia. The award is given for exemplary performance and achievements in innovation, effectiveness and dynamism.

PBB PARTICIPATES IN PHILIPPINE FRANCHISE ASSOCIATION EXPO

The Philippine Franchise Association Expo, held on July 19 - 21, 2013 at the SMX Convention Center, is a part of Asia's largest 4-in-1 franchise show organized by the Philippine Franchise Association (PFA), an acknowledged voluntary self-regulating governing body and a member of Asia Pacific Franchise Confederation (APFC) and the World Franchise Council (WFC).

The international expo showcased the best Asian brands and shared valuable global practices, bearing the theme: "Asia to the World, The World to Asia: Driving Growth towards a Philippine Tiger Economy." The three-day one-stop shop international franchise expo featured a diverse mix of franchise players, from micro to large enterprises, both foreign and domestic involved in food, retail, services and other types of businesses.

In pursuit of a wider spectrum of growth, PBB's participation in the expo became an opportunity for the bank to exchange information on business practices, form fruitful partnerships and utilize the franchising business to foster economic and social development.

The event was graced by PBB's Chairman Emeritus, Alfredo M. Yao along with the Head of Product Development and Corporate Affairs, Judith Songlingco; Business Lending Officer, Queenie Sy; Customer Service Associate, Raiza Wenny Go and Head of AMGIII, Eduardo Que.

BATANGAS CITY CONDUCTS FIRST BUSINESS FORUM

Collaborating with the local government, business community and the United States Agency for International Development (USAID), Batangas City hosted its first business forum entitled "Let's Talk Business: Invest in Batangas City" on December 11, 2013 at the Grand Ballroom of Intercontinental Hotel, Makati City.

The business forum is part of the Investment Enabling Environment Project (INVEST) - a two-year initiative supported by USAID, which aims to assist the Philippine government by lowering transaction costs in doing business at the local level, increasing the flow of private investments and the number of business start-ups in the Philippines.

The event's 240 attendees consisted of representatives from national business organizations, industry associations, financial institutions and national government agencies. The local government and private sector leaders from Batangas presented various business and investment opportunities encouraging potential investors – including the Philippine Business Bank (PBB) - to engage in efforts to build on the resources of Batangas City.

PBB took the forum as an opportunity to work in partnership with the local government to build a broader economic base in the city, and further penetrate the provincial market, providing SMEs with accessible banking services.

OUR PRODUCTS & SERVICES

Deposit Products

Savings Account
Checking Account
ATM
Automatic Transfer Account (ATA)
Payroll Account
Campus Savers (Kiddie Account)
Time Deposit (Regular & 5-year TD)
FCDU (SA & TD)
Hi-Green Fund

Trust Products and Services

PBB Diamond Fund-a UITF
Living Trust
Trustee of Pre-Need Plans
Escrow Agency
Safekeeping & Depository
Mortgage Trust
Investment Management
 Arrangement- Personal or Corporate

Loan Products

Auto loan
Housing Loan
Bus Loan
Contract to Sell (CTS)
Financing Facilities

Commercial, Industrial, and Developmental Loans

Bills Purchase
Term Loan
Omnibus Line
Discounting Line
Trade Finance
Agriculture Loans
Specialized Lending Facilities for SMEs
Floor Stock/ Inventory Financing

Other Business Services

Remittance Services
- Mail & Telegraphic Transfers (Domestic & International)
- Western Union Money Transfer
- Money Movers

Local Payment Orders
- Manager's Check / Gift Check / Demand Draft

Foreign Drafts
Safety Deposit Box Facilities
Night Depository Box
(available at selected branches*)
Group Payroll Services
Bills Payment / Collection Services
SSS Payments / PhilHealth
** The Fort, Calamba, Batangas City*

OUR LOCATION MAP

PROVINCE

- Angeles
- Antipolo
- Bacolod
- Baguio
- Baliuag
- Batangas
- Bocaue
- Butuan
- Cabanatuan
- Cagayan de Oro
- Cagayan de Oro - Cogon
- Cainta
- Calamba
- Cauayan
- Downtown, Cebu City
- City of San Fernando, Pampanga
- Dagupan
- Dasmariñas, Cavite
- Davao, Bajada
- Davao- Sales
- Gapan
- General Tinio
- General Santos
- Iloilo
- Imus
- Kalibo
- Laoag
- Lapu-Lapu City, Cebu
- Legazpi City
- Lipa City
- Lucena City
- Malolos
- Mandaue City
- Masinag, Antipolo
- Meycauayan
- Muzon
- Naga
- Olongapo
- Puerto, Princesa Palawan
- Sales, Davao
- San Fernando, La Union
- San Pablo
- Sorsogon
- Sta. Maria, Bulacan
- Sta. Rosa, Laguna
- Tacloban
- Tagbilaran, Bohol
- Tanuan
- Tarlac
- Tuguegarao
- Urdaneta
- Zamboanga

METRO MANILA

- Main Office (Caloocan)
- A. Mabini C-3
- Adriatico, Malate
- Banawe
- Banawe - Kaliraya
- Binondo Corporate Center
- Camarin
- Carmen Planas
- Commonwealth - Fairview
- Congressional Avenue - Quezon City
- Cubao
- Del Monte
- Edsa-Caloocan Business Center
- Edsa - Monumento
- Elcano
- Grace Park
- Greenhills
- Jose Abad Santos
- Karuhatan - Malinta
- Kaybiga, Caloocan
- Las Piñas
- Legaspi Village - Makati
- Madrigal Business Park - Makati
- Makati
- Malabon
- Malabon - Rizal Avenue
- Mandaluyong
- Marikina
- Marikina - Concepcion
- Muntinlupa
- Navotas
- Novaliches
- Ortigas Business Center
- Pasay
- Pasay - Malibay
- Pasig Blvd. - Kapitolyo
- Paso de Blas
- Paterno - Quiapo
- Pedro Gil - Paco
- Quintin Paredes
- Retiro
- Roosevelt
- Salcedo Village, Makati
- Samson Road
- Sucat, Parañaque
- The Fort
- Timog - Rotonda
- Valenzuela
- West Avenue

- Newly Opened Branches

OUR BRANCHES

METRO MANILA

A. Mabini - C3
200 A. Mabini St. Maypajo,
Caloocan City
Phone: (632) 287-8895; 287-6621
Fax: (632) 288-1249
Branch Head: Milka Diaz
Email: diaz_ma@pbb.com.ph

Adriatico -Malate
G/F Hostel 1632
Adriatico Street, Malate, Manila
Phone:353- 3258; 450-1482
Fax: 353-3262
Branch Head: Danilo D. Mendiola
Email: mendiola_dd@pbb.com.ph

Banawe
Unit 5-7 Solmac Bldg. 84 Dapitan
cor Banawe Sts. Sta. Mesa Heights,
Quezon City
Phone: (632) 410-8350; 708-5810;
410-9019
Fax: (632) 410-8656
Branch Head: Elizabeth S. Cheung
Email: cheung_es@pbb.com.ph

Banawe - Kaliraya
Motorex Philippines, Inc. Building 148
Banawe cor. Kaliraya St.,
Barangay Tatalon, Quezon City
Phone: 448-6613; 711-0918; 711-1015
Fax: 711-0918
Branch Head: Maria Cristina V. Balaoing
Email: balaoing_mcv@pbb.com.ph

Binondo Corporate Center
1126 Soler St. Binondo, Manila
Phone: (632) 242-0601; 242-7927;
310-3785
Fax: (632) 310-3784
Branch Head: Rosalie W. Chu
Email: chu_rw@pbb.com.ph

Camarin
Zabarte Town Center 588 Camarin
Road, corner Zabarte Road,
North Caloocan City
Phone: (632) 962-0232; 962-0160;
962-0627
Fax: (632) 962-0160
Branch Head: Celito Aquilar
Email: aguilar_cq@pbb.com.ph

Carmen Planas
869 Carmen Planas St. Binondo, Manila
Phone: (632) 245-5066; 245-5083;
522-7972
Fax: (632) 245-5226
Branch Head: Corazon S. Gutierrez
Email: gutierrez_cs@pbb.com.ph

Commonwealth - Fairview
G/F Datamex - College of St. Adeline,
Commonwealth Avenue, East Fairview
Park Subdivision, Quezon City
Phone: (632) 376-9477; 428-7104
Fax: (632) 376-2358
Branch Head: Robert Paras
Email: paras_re@pbb.com.ph

Congressional Avenue -
Quezon City Branch
No. 622 Congressional Avenue,
Barangay Bahay Toro, Quezon City
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Fax: 453-7242
Branch Head: Carminda A. Baculi
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Cubao
Units D, E & F Timbol Bldg. 915
Aurora Blvd. Cubao, Quezon City
Phone: (632) 709-3649; 709-3695
Fax: (632) 438-9966
Branch Head: Sonia C. Sy
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Del Monte
284-286 Del Monte Ave., Quezon City
Phone: (632) 708-5801; 749-9103;
414-2726
Fax: (632) 749-9103
Branch Head: Siu Bee Belen Y. Ang
Email: ang_bs@pbb.com.ph

EDSA - Caloocan Business Center
574 Epifanio delos Santos,
EDSA Highway Kalookan City
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Fax: (632) 363-1635
Branch Head: Christina Aquino
Email: aquino_cj@pbb.com.ph

EDSA- Monumento
261 EDSA Highway, Barangay 85,
Zone 8, Caloocan City
Phone: 949-8673
Branch Head: Ricardito U. Y

Elcano
730 Elcano St., Binondo, Manila
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Fax: (632) 241-4287
Branch Head: Rosemarie T. Apostol
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7th Avenue, Grace Park, Caloocan City
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Fax: 361-0941
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Email: singson_mpc@pbb.com.ph

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Barangay Greenhills, San Juan
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Fax: (632) 234-9016
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Jose Abad Santos
1737-1739 Jose Abad Santos,
Tondo, Manila
Phone: 230-2340; 230-4033; 964-8216
Fax: 230-4099
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Karuhatan - Malinta
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McArthur Highway, Karuhatan,
Valenzuela City
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Fax: (632) 922-0891
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Email: laiz_amb@pbb.com.ph

Kaybiga, Caloocan City
Guilmar Marble Corporation Bldg.
297 General Luis Street Kaybiga,
Caloocan City
Phone: (632) 352-7872; 417-0165
Fax: (632) 352-7791
Branch Head: Ruperto Poblete, Jr.
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Las Piñas
Unit 1 & 2 G/F San Beda Commercial
Zapote Alabang Rd., Las Piñas
Phone: (632) 874-7966; 808-7292
Fax: (632) 875-0589
Branch Head: Christine F. Suriaga
Email: suriaga_cf@pbb.com.ph

Legaspi Village- Makati
Sunrise Terraces, 100 Perea Street,
Legaspi Village, Barangay San Lorenzo,
Makati City
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Fax: 551-2416
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OUR BRANCHES

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1906 Finance Drive Madrigal
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Fax: (632) 822-2706
Branch Head: Florante V. Fajardo
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Main Office (Caloocan)
350 Rizal Ave. Ext cor 8th Ave.,
Grace Park,Caloocan City
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Fax: (632) 363-0291
Branch Head: Stephen Y. Co
Email: co_sy@pbb.com.ph

Makati
137 Yakal Street, Makati City
Phone: (632) 892-6768; 817-5720;
892-8498
Fax: (632) 812-4755
Branch Head: Mellany S. Peralta
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Malabon
155 Gov. Pascual Ave., Malabon City
Phone: (632) 288-0078; 446-3444;
287-7873
Fax: (632) 287-7873
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Email: rivera_kme@pbb.com.ph

Malabon - Rizal Avenue
726 Rizal Avenue Barangay Tañong,
Malabon City
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376-1433
Fax: (632) 447-6044
Branch Head: Daisy San Luis
Email: sanluis_dg@pbb.com

Mandaluyong
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Mandaluyong City
Phone: (632) 470-3244; 718-0103
Fax: (632) 531-3537
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Marikina
306 J. P. Rizal St., Sta. Elena
Marikina City
Phone: (632) 646-5864; 933-3109
Fax: (632) 646-6294
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Email: deguzman_sl@pbb.com.ph

Marikina - Concepcion
Bayan- Bayanan Avenue,
Concepcion Uno, Marikina City
Phone: 955-6172; 948-56-88
Fax: 948-4213
Branch Head: Josephine M. Ramos
Email: ramos_jm@pbb.com.ph

Muntinlupa
G/F Units 1 & 2 # 50 National Road,
Putatan, Muntinlupa City
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Fax: 551-0010
Branch Head: Racela Velasquez
Email: velasquez_rl@pbb.com.ph

Navotas
G/F Teresita Bldg. Northbay Blvd.,
South Navotas City
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383-1410
Fax: 355-4274
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Novaliches
Krystle Bldg. 858 Quirino Highway
Novaliches, Quezon City
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Ortigas Home Depot Complex P28-29,
Bldg. B #1 Julia Vargas Avenue,
corner Meralco Avenue,
Barangay Ugong Pasig City
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914-7032
Fax: 570-6863
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2241 C. k. Sy Bldg. Taft Ave.,
Pasay City
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Pasay - Malibay
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641 Epifanio Delos Santos Avenue
(EDSA), Malibay, Pasay
Phone: 622-8158; 403-3231; 403-2386
Branch Head: Lorrine G. De Dios

Pasig-Kapitolyo
Ground Fl., Unit 4 Elements on
Rosemarie Bldg.,Pasig Blvd. cor.
Rosemarie Street, Pasig City
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Fax: (632) 234-0608
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Paso De Blas
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Barangay Paso de Blas, Valenzuela City
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293-1933
Fax: (632) 293-1933
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707 Paterno St., Barangay 307,
Quiapo, Manila
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Fax: 354-9695
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Email: sy_ddt@pbb.com.ph

Pedro Gil- Paco
1077 Pedro Gil St. Paco, Manila
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Fax: 354-5141
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Quintin Paredes
G/F Downtown Center Bldg. Quintin
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241-7123
Fax: 242-0871
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Retiro
No. 84 Units A & B N.S. Amoranto Ave.,
Barangay Salvacion, La Loma,
Quezon City
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Branch Head: Maria Cristina A. Flores
Email: flores_mca@pbb.com.ph

Roosevelt
Sun Square Building, 323 Roosevelt
Avenue, Barangay San Antonio, San
Francisco Del Monte, Quezon City
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Fax: 376-1135
Branch Head: Patricia Lou A. Bautista
Email: bautista_pla@pbb.com.ph

Salcedo Village- Makati
Unit GDA-1, LPL Center,
130 L.P. Leviste St., Salcedo Village,
Makati City
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Fax: 550-2482
Branch Head: Eliel B. Aparri
Email: aparri_eb@pbb.com.ph

Samson Road
117 D & E Samson Road, Caloocan City
Phone: (632) 310-9068; 332-8506
Fax: (632) 332-9495
Branch Head: Rosalie T. Belen
Email: belen_rt@pbb.com.ph

Sucat- Paranaque Branch
Unit B-10-A Jaka Plaza Mall
A. Santos Avenue, Sucat,
Paranaque City
Phone: 552-2548; 501-6247
Fax: 552-2547
Branch Head: Leslie A. Formoso
Email: formoso_la@pbb.com.ph

The Fort
Units 104-105 Forbeswood Towers,
Forbestown Center, Rizal Drive cor.
Burgos Circle, Bonifacio Global City,
Taguig City
Phone: (632) 856-6653; 856-6654
Fax: (632) 856-6652
Branch Head: Imelda Baleros
Email: baleros_ig@pbb.com.ph

Timog - Rotonda
A.A Tanco Building # 55 Timog Avenue
Cor. Tomas Morato Avenue,
Barangay South Triangle, Quezon City
Phone: 41-0895; 376-9530; 950-6003
Branch Head: Maria Senta B. Castro
Email: castro_msb@pbb.com.ph

Valenzuela
215 McArthur Highway, Karuhatan,
Valenzuela City
Phone: (632) 443-8113; 443-8118;
292-3296
Fax: (632) 443-9030
Branch Head: Imelda D. Uy
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West Avenue
Unit 102, West Ave. Strip,
53 West Ave., Brgy. Paltok,
Quezon City
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Fax: 411-0355
Branch Head: Aileen M. Halata
Email: halata_am@pbb.com.ph

PROVINCIAL

Angeles
Lot 5 Blk 1 McArthur Highway,
Angeles City
Phone: (045) 626-2088 to 89; 888-7205
Fax: (045) 626-2087
Branch Head: Araceli Manalili
Email: manalili_ac@pbb.com.ph

Antipolo
Units 3 & 4 Megathon Bldg.
Circumferential Road, Brgy. San Roque,
Antipolo City
Phone: (632) 697-3051 or 54; 630-5186
Fax: (632) 697-3018
Branch Head: Elizabeth Sales
Email: sales_ek@pbb.com.ph

Bacolod
Philamlife Bacolod Bldg., Lacson St. cor
Galo Street, Bacolod City
Phone: (034) 435-5745; 435-5734;
435-5683
Fax: (034) 435-5744
Branch Head: Alex L. Antonio
Email: antonio_al@pbb.com.ph

Baguio City
G/F CTTL Bldg. Abanao Ext., Baguio City
Phone: (074) 447-2692; 447-2694
Fax: (074) 447-2693
Branch Head: Mary Ann Sereño
Email: sereno_mads@pbb.com.ph

Baliuag
B.S. Aquino Ave. Bagong Nayon
Baliwag, Bulacan
Phone: (044) 673-5216; 673-5452
Fax: (044) 766-3485
Branch Head: Loreta Rueda
Email: rueda_lt@pbb.com.ph

Batangas
Cifra Plaza, No. 114 Rizal Avenue corner
P. Zamora Street, Barangay 16,
Batangas City
Phone: (043) 702-2385; 702-1182;
702-1162
Fax: (043) 425-0053
Branch Head: Dina Rose M. Cruz
Email: cruz_drm@pbb.com.ph

Bocaue
Mac Arthur Highway, Barangay Wakas,
Bocaue, Bulacan
Phone: (044) 233-3615
Branch Head: Mary Joy R. Figueroa
Email: figueroa_mjr@pbb.com.ph

Butuan
Montilla Boulevard cor. T. Calo St.,
Butuan City, Agusan Del Norte
Phone: (085) 815-0512; 815-0513
Branch Head: Melchora U. Donoso
Email: donoso_mu@pbb.com.ph

Cabanatuan
Paco Roman St., Cabanatuan City,
Nueva Ecija
Phone: (044) 940-1470; 464-7411;
464-7417
Fax: (044) 940-1491
Branch Head: Ma. Victoria Garcia
Email: garcia_mvl@pbb.com.ph

Cagayan de Oro
Door 1 & 2 Surposa Bldg. 281
Recto Ave., Lapasan Highway,
Cagayan de Oro City
Phone: (088) 231-6680; 231-6682;
231-6683
Fax: (088) 231-6681
Branch Head: Phil P. Bada
Email: bada_pp@pbb.com.ph

Cagayan de Oro - Cogon
ALLA Inc. Building, JR Borja St. (near
corner Don Apolinar Velez Street)
Barangay 32, Cagayan De Oro City,
Misamis Oriental
Phone: (088) 323-1625
Branch Head: Rowena L. Ching
Email: ching_rl@pbb.com.ph

Cainta
Unit B5 and B6, The Avenue, Felix
Avenue, Cainta, Rizal
Phone: (632) 645-6631; 647-5622
Fax: (632) 681-1658
Branch Head: Marlon Lim
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Calamba
G/F Unit 2 Kim-Kat Annex Bldg.,
National Highway, Brgy. Parian,
Calamba, Laguna
Phone: (049) 545-0980; 508-0059;
834-3283
Fax: (02) 420-820
Branch Head: Mildred Llorente
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Cauayan
Maharlika Highway, Barangay San
Fermin, Cauayan City, Isabela
Phone: (078) 652-0293; 652-0294;
652-0301; 260-0032
Fax: (078) 652-0301
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G/F Lianting Bldg. 130 F. Gonzales St., Cebu City
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City of San Fernando, Pampanga
G/F Hyatt Garden Bldg. Dolores City, San Fernando, Pampanga
Phone: (045) 961-0524; 961-1854; 860-3858
Fax: (045) 961-0523
Branch Head: Elinor Guinto
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Rizal St., Dagupan City, Pangasinan
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Dasmariñas- Cavite
Unit G2 Annie's Plaza Dasma, Barangay San Agustin I, Dasmariñas City, Cavite
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Manager: Wilfred D. Abobo
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Davao, Bajada
G/F DCCCII Bldg., JP Laurel Ave. Bajada, Davao City
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Davao-Sales
Door 7 & 8 JM Bldg. Governor Sales St., Davao City
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Phone: (044) 486-1439, 486-2437; 486-0893
Fax: (044) 862-2437
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General Santos City
GSC SunCity Suites, SunCity Complex B-1-03 & B-1-04 National Highway Lagao, General Santos City
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Fax: (083) 301-6014
Branch Head: Genevieve Calderon
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Gen. Tinio
Poblacion Central (Papaya) Gen. Tinio, Nueva Ecija
Phone: (044) 973-0468, 973-0598; 973-0716
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Fax: (033) 336-9472
Branch Head: Helen Chua
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Imus
Aguinaldo Highway, Tanzang Luma, Imus, Cavite
Phone: (046)-472-3663; 472-3664
Fax: (046) 529-8630
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Email: solis_lj@pbb.com.ph

Kalibo
Roxas Avenue, Poblacion, Kalibo City, Aklan
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Branch Head: Judy T. Roldan
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Laoag
G/F Laoag Allied Marketing Bldg. Barangay 19, Rizal St. Laoag City
Phone: (077) 772-3027; 772-3041; 772-3042; 771-1523
Fax: (077) 772-3041
Branch Head: Olivia Marie Albano
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Lapu-Lapu City
G/F AMCO Building
M. L. Quezon National Road
Pajo, Lapu-Lapu City, Cebu
Phone: (032) 495-2831; 236-3018
Fax: (032) 238-8590
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Email: parba_cms@pbb.com.ph

Legazpi City
D' Executive Building, Rizal St., Barangay Tinago, Legazpi City, Albay
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Lipa City
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Fax: (043) 455-1020
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Lucena City
Quezon Avenue, Lucena City
Phone: (042) 797-1839; 797-0528; 322-0086
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Malolos
Paseo del Congreso Catmon, Malolos City, Bulacan
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Fax: (044) 760-4834
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Mandaue
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Fax: (032) 345-2657
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Masinag - Antipolo
Unit 104 G/F Rikland Centre Marcos Highway, Mayamot Antipolo City
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Meycauayan
Medical Plaza Bldg. McArthur Highway, Banga, Meycauayan, Bulacan
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Fax: (044) 769-6329
Branch Head: Girlie Patricia Agustin
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Muzon
807 Luwasan Muzon, City of San Jose del Monte, Bulacan
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Branch Head: Chyrel B. Tuazon
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Naga
Unit C G/F CBD Plaza Hotel Ninoy and Cory Ave., Central Business District II Triangulo, Naga City
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Olongapo
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FOCUSED ON SUSTAINABLE SOLUTIONS

An integral part of the Bank's mission stands firm on holistic values beyond business.
By that principle, PBB has been uplifting lives of people through its various social advocacies, contributing to the well-being of the community and the general society.

BRINGING GOODWILL TO SOCIETY

Established in 2003, the Alfredo M. Yao (AMY) Foundation is Philippine Business Bank's (PBB) Corporate Social Responsibility (CSR) arm, sharing the gift of education by providing scholarships to underprivileged but academically gifted students. 2013 proves to be another remarkable year for the Foundation due to a continuous rise in the number of beneficiaries under its scholarship program. According to the Foundation's scholar status report of December 31, 2013, there is a total of 110 graduates and 102 continuing scholars taking up various courses in partner and non-partner schools.

NEW LEADERS OF POSITIVE CHANGE

The year brought about a new set of Board of Trustees to the AMY Foundation. Mr. Antonio I. Panajon has been serving the Foundation as one of the Board of Trustee members since its inception. This year, he was appointed as the new President of the AMY Foundation, taking over the responsibility from former President Francis T. Lee, who dedicated 9 years of dedicated service to the Foundation. The Organization also welcomed Mr. Amado T. Tadena as their new Vice President. Together, Mr. Panajon and Mr. Tadena bring to the Foundation a wealth of experience and expertise in handling various community related development projects and advocacies.

OUR CSR

BLUEPRINTS FOR TOMORROW

In the active pursuit of their mission to provide educational assistance to less-privileged youth, the AMY Foundation plans to engage in more projects to uplift the status of the Philippine society in the field of education. The Foundation is eager to find ways to partner with more state universities in order to reach a larger number of students in need of educational assistance. To better serve the community, continuous improvements will be carried out on the Foundation's systems and organization, project implementation and monitoring sectors.

AMY Foundation President Antonio I. Panajon is considering plans of including nutrition, sports and spiritual activities to the list of future projects. Also in the works is the launch of a computerized teaching project for K-12 in partnership with the Department of Education (DepEd). According to AMY Foundation Vice President Amando T. Tadena, the program would be made available to a designated pilot school sponsored by the Foundation.

Keen on participating more actively in livelihood, social development, community advancement and shelter projects, the AMY Foundation looks forward to establishing meaningful partnerships with various NGOs in the coming years.

PBB LENDS A HELPING HAND TO YOLANDA VICTIMS

In the aftermath of Super Typhoon Yolanda, the country suffered the loss of many lives and severe destruction in its wake. Responding to a call for urgent measures, PBB joined massive relief efforts during those difficult hours.

Finding the answer to the question of how the Bank can extend assistance was considered a prime priority. It didn't take long when it was decided to use the Bank's Christmas party fund of P1 million to help in the disaster relief operations, hoping that the amount will go a long way to serve that purpose.

But it didn't stop there, as it went further on with the active participation of 200 PBB employees who volunteered in packing relief goods and distributing them directly to victims in affected areas in Tacloban.

In the course of conducting business, PBB is there to be of help in time of need. It is the Bank's way of lending a helping hand in the spirit of goodwill.

PBB PARTICIPATES IN KAISA'S BANGKABUHAYAN PROJECT

On November 8, 2013, Typhoon Yolanda tore through Northern Iloilo with powerful winds that left around 9,000 fishermen without means to support their families. Seeing the devastation in province, the KAISA Heritage Foundation created the Bangkabuhayan Project in support of the livelihood of fishermen affected by the storm.

The Bangkabuhayan project is a concerted relief effort by the KAISA Heritage Foundation in cooperation with the Tsinoys in Nation Building Consortium (TNBC). The KAISA foundation participates in various activities and projects targeted to help mainstream societal concerns, which allow a more meaningful participation of the Chinese-Filipino community.

Philippine Business Bank took part in the project and donated ten boats complete with other fishing equipment, which were distributed to fishermen in the hardest hit towns of Concepcion, Estancia and Carles. Bangkazbuhayan helped the survivors get back on their feet and carry on with their main source of livelihood. The project was in line with PBB's commitment to spur positive change in the lives of the fisherfolk.

A ceremonial turnover of the donation was held on December 17, 2013 at the PBB Penthouse. The event was attended by PBB Chairman Francis Lee, AMY Foundation Executive Director/Project Coordinator, Ms. Alice Rodil, KAISA Chairperson, Ms. Teresita Ang-See, President, Ms. Angela Yu, and Vice President, Ms. Anabel Chua-Lim.

Making Things Happen...Today!

2013
AUDITED FINANCIAL STATEMENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Philippine Business Bank, Inc. A Savings Bank is responsible for the preparation and fair presentation of the financial statements for the three years ended December 31, 2013, 2012 and 2011, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and the implementing internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors or Trustees reviews and approves the financial statements and submit the same to the stockholders or members.

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

FRANCIS T. LEE
Chairman of the Board

ROLANDO R. AVANTE
Chief Executive Officer

ALICE P. RODIL
Chief Financial Officer

Signed this 5th day of May 2014, in Caloocan City, Philippines.

Doc. No. 359
Page No. 73
Book No. 13
Series of 2014.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and the Stockholders
Philippine Business Bank, Inc. A Savings Bank
350 Rizal Avenue Extension corner 8th Avenue
Grace Park, Caloocan City

Report on the Financial Statements

We have audited the accompanying financial statements of Philippine Business Bank, Inc. A Savings Bank, which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting standards in the Philippines for banks as described in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philippine Business Bank, Inc. A Savings Bank as at December 31, 2013, 2012, and 2011, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2013, in accordance with financial reporting standards in the Philippines for banks as described in Note 2 to the financial statements.

Report on Other Legal and Regulatory Requirements

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

PUNONGBAYAN & ARAULLO

By: **Benjamin P. Valdez**
Partner

CPA Reg. No. 0028485
TIN 136-619-880
PTR No. 4222741, January 2, 2014, Makati City
SEC Group A Accreditation
Partner - No. 0009-AR-3 (until Dec. 9, 2014)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-11-2011 (until Sept. 21, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 11, 2014

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2013 AND 2012
(With Corresponding Figures as of January 1, 2012)
(Amounts in Philippine Pesos)

	Notes	December 31, 2013	December 31, 2012 (As Restated - See Note 2)	January 1, 2012 (As Restated - See Note 2)
RESOURCES				
CASH AND OTHER CASH ITEMS	9	**P 735,667,668**	P 435,898,545	P 297,076,011
DUE FROM BANGKO SENTRAL NG PILIPINAS	9	**3,597,209,300**	3,073,180,153	1,119,319,376
DUE FROM OTHER BANKS	10	**671,482,943**	1,000,089,458	630,690,655
TRADING AND INVESTMENT SECURITIES				
At Fair Value Through Profit Or Loss	11	**917,630,877**	-	207,742,896
Available -For-Sale	12	**7,908,049,843**	5,784,536,589	5,710,865,521
Held-To-Maturity	13	**8,656,409**	-	-
LOANS AND OTHER RECEIVABLES - NET	14	**31,599,913,333**	20,869,152,721	16,704,655,545
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - NET	15	**476,837,632**	398,495,157	340,824,112
INVESTMENT PROPERTIES - NET	16	**445,660,554**	549,237,420	397,393,144
OTHER RESOURCES - NET	17	**796,520,701**	993,430,040	480,366,943
TOTAL RESOURCES		**P 47,157,629,260**	P 33,104,020,083	P 25,888,934,203
LIABILITIES AND EQUITY				
DEPOSIT LIABILITIES	18			
Demand		**P 4,944,474,190**	P 366,102,479	P 318,440,285
Savings		**8,781,500,500**	8,569,873,133	8,733,282,429
Time		**24,156,036,054**	17,512,911,126	12,143,265,403
Total Deposit Liabilities		**37,882,010,744**	26,448,886,738	21,194,988,117
BILLS PAYABLE	19	**193,927,801**	765,489,517	121,482,599
ACCRUED EXPENSES AND OTHER LIABILITIES	20	**2,055,211,767**	1,503,054,691	909,330,700
Total Liabilities		**40,131,150,312**	28,717,430,946	22,225,801,416
EQUITY	21	**7,026,478,948**	4,386,589,137	3,663,132,787
TOTAL LIABILITIES AND EQUITY		**P 47,157,629,260**	P 33,104,020,083	P 25,888,934,203

See Notes to Financial Statements.

STATEMENTS OF PROFIT OR LOSS

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2013	2012 (AS RESTATED - SEE NOTE 2)	2011 (AS RESTATED - SEE NOTE 2)
INTEREST INCOME				
Loans And Other Receivables	14	**P 1,814,946,365**	P 1,284,470,654	P 1,031,440,553
Trading and Investment Securities	11, 12, 13	**368,600,681**	346,975,551	547,812,982
Securities Purchased Under Reverse Repurchase Agreements	14	**2,713,239**	52,927,125	59,436,144
Due From Bangko Sentral ng Pilipinas And Other Banks	9, 10	**45,503,957**	22,489,319	19,281,830
		2,231,764,242	1,706,862,649	1,657,971,509
INTEREST EXPENSE				
Deposit Liabilities	18	**489,258,915**	608,049,195	536,224,396
Bills Payable	19	**8,609,402**	25,917,742	36,235,312
Others	23	**1,738,852**	1,297,045	137,274
		499,607,169	635,263,982	572,596,982
NET INTEREST INCOME		**1,732,157,073**	1,071,598,667	1,085,374,527
IMPAIRMENT LOSSES	14, 16	**178,193,789**	72,417,710	50,000,000
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**1,553,963,284**	999,180,957	1,035,374,527
OTHER INCOME				
Trading Gains - net	11, 12, 14	**816,773,032**	713,001,287	594,880,835
Service Charges, Fees and Commissions		**73,829,527**	67,727,501	65,543,065
Miscellaneous	22	**38,228,379**	104,216,068	102,084,932
		928,830,938	884,944,856	762,508,832
OTHER EXPENSES				
Salaries And Other Employee Benefits	23	**392,749,657**	320,793,394	255,263,277
Taxes And Licenses	29	**265,247,277**	223,137,873	178,324,986
Management And Other Professional Fees		**130,457,358**	94,039,960	91,047,068
Depreciation And Amortization	15, 16, 17	**105,713,999**	77,573,667	63,197,800
Insurance		**84,456,483**	61,805,245	47,580,555
Representation And Entertainment		**30,848,276**	23,656,561	23,829,965
Miscellaneous	22	**345,547,536**	371,967,383	292,124,103
		1,355,020,586	1,172,974,083	951,367,754
PROFIT BEFORE TAX		**1,127,773,636**	711,151,730	846,515,605
TAX EXPENSE	25	**123,727,024**	56,562,168	99,555,407
NET PROFIT		**P 1,004,046,612**	P 654,589,562	P 746,960,198
Earnings Per Share	28			
Basic		**P 3.04**	P 2.29	P 3.09
Diluted		**P 3.04**	P 2.29	P 3.09

See Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2013	2012 As Restated - See Note 2)	January 1, 2012 (As Restated - See Note 2)
NET PROFIT		**P 1,004,046,612**	P 654,589,562	P 746,960,198
OTHER COMPREHENSIVE INCOME				
Items That Will Not Be Reclassified Subsequently To Profit Or Loss				
Remeasurements Of Post-Employment Defined Benefit Plan	23	**(12,978,354)**	(9,233,893)	(17,741,654)
Tax Income	25	**3,893,506**	2,770,168	5,322,496
		(9,084,848)	(6,463,725)	(12,419,158)
Items That Will Be Reclassified Subsequently To Profit Or Loss				
Fair value gain (loss) on available-for-sale securities during the year - net	12	**(1,042,090,203)**	185,130,710	467,638,969
Fair value gain recycled to profit or loss		**(323,766,597)**	(384,450,196)	(5,720,559)
		(1,365,856,800)	(199,319,486)	461,918,410
TOTAL COMPREHENSIVE INCOME (LOSS)		**(P 370,895,036)**	P 448,806,351	P 1,196,459,450

See Notes to Financial Statements.

STATEMENTS OF
OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	Capital Stock: Preferred Stock	Capital Stock: Common Stock	Additional Paid-in Capital	Surplus: Appropriated	Surplus: Unappropriated	Revaluation Reserves: Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Revaluation Reserves: Accumulated Actuarial Gains (Losses)	Total Equity
BALANCE AS OF JANUARY 1, 2013									
As previously reported		P 620,000,000	P 2,420,000,000	P -	P 873,498	P 1,038,902,212	P 322,575,800	P -	P 4,402,351,510
Prior period adjustment	2	-	-	-	-	3,862,104	-	(20,570,443)	(16,708,339)
As restated		620,000,000	2,420,000,000	-	873,498	1,042,764,316	322,575,800	(20,570,443)	4,385,643,171
Appropriation for trust reserves	21	-	-	-	890,704	(890,704)	-	-	-
Share issuance during the year	21	-	1,013,334,000	1,998,396,816	-	-	-	-	3,011,730,816
Total comprehensive income (loss)	12, 23	-	-	-	-	1,004,046,612	(1,365,856,800)	(9,084,848)	(370,895,036)
BALANCE AS OF DECEMBER 31, 2013		**P 620,000,000**	**P 3,433,334,000**	**P 1,998,396,816**	**P 1,764,202**	**P 2,045,920,225**	**(P 1,043,281,000)**	**(P 29,655,291)**	**P 7,026,478,951**
BALANCE AS OF JANUARY 1, 2012									
As previously reported		P 245,000,000	P 420,000,000	P -	P 277,564	P 2,485,562,793	P 521,895,286	P -	P 3,672,735,643
Prior period adjustment	2	-	-	-	-	4,503,861	-	(14,106,718)	(9,602,857)
As restated		245,000,000	420,000,000	-	277,564	2,490,066,654	521,895,286	(14,106,718)	3,663,132,786
Appropriation for trust reserves	21	-	-	-	595,934	(595,934)	-	-	-
Collection of subscription receivable	21	375,000,000	-	-	-	-	-	-	375,000,000
Stock	21	-	2,000,000,000	-	-	(2,000,000,000)	-	-	-
Cash dividends	21	-	-	-	-	(100,350,000)	-	-	(100,350,000)
Total comprehensive income (loss)	12, 23	-	-	-	-	654,589,562	(199,319,486)	(6,463,725)	448,806,351
BALANCE AS OF DECEMBER 31, 2012		P 620,000,000	P 2,420,000,000	-	P 873,498	P 1,043,710,282	P 322,575,800	(P 20,570,443)	P 4,386,589,137
BALANCE AS OF JANUARY 1, 2011									
As previously reported		P 245,000,000	P 420,000,000	P -	-	P 1,738,866,235	P 59,976,876	P -	P 2,463,843,111
Prior period adjustment	2	-	-	-	-	4,517,786	-	(1,687,560)	2,830,226
As restated		245,000,000	420,000,000	-	-	1,743,384,021	59,976,876	(1,687,560)	2,466,673,337
Appropriation for trust reserves	20	-	-	-	277,564	(277,564)	-	-	-
Total comprehensive income (loss)	12, 23	-	-	-	-	746,960,198	461,918,410	(12,419,158)	1,196,459,450
BALANCE AS OF DECEMBER 31, 2011		P 245,000,000	P 420,000,000	-	P 277,564	P 2,490,066,655	P 521,895,286	(P 14,106,718)	P 3,663,132,787

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2013	2012 (As Restated - See Note 2)	2011 (As Restated - See Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		**P 1,127,773,636**	P 711,151,730	P 846,515,605
Adjustments for:				
Depreci ation and amortization	15, 16, 17	**105,713,999**	77,573,666	63,197,800
Impairment losses	12, 14	**178,193,789**	72,417,710	50,000,000
Gain on sale of properties - net	22	**(17,233,626)**	(12,226,663)	(9,199,762)
Gain on foreclosure - net	22	**(6,239,465)**	(1,018,455)	(32,028,960)
Operating profit before working capital changes		**1,388,208,333**	847,897,988	918,484,684
Decrease (increase) in financial assets at fair value through profit or loss		**(917,630,877)**	207,742,896	(207,742,896)
Increase in loans and other receivables		**(10,892,111,672)**	(4,515,632,998)	(1,933,185,215)
Decrease (increase) in other resources		**238,188,142**	(477,888,384)	43,823,968
Increase in deposit liabilities		**11,433,124,006**	5,253,898,621	3,607,581,692
Increase in accrued expenses and other liabilities		**373,157,362**	593,604,633	64,659,571
Cash generated from operations		**1,622,935,293**	1,909,622,756	2,493,621,804
Cash paid for income taxes		**-**	(98,405,502)	(132,455,753)
Net Cash From Operating Activities		**1,622,935,293**	1,811,217,254	2,361,166,051
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of available-for-sale (AFS) securities	12	**(18,912,353,899)**	(13,528,772,418)	(10,977,153,805)
Proceeds from sale of AFS securities	12	**15,422,983,845**	13,255,781,864	12,351,229,335
Acquisition of held-to-maturity securities	13	**(8,656,409)**	-	-
Proceeds from sale of investment and other properties	16, 17	**98,217,618**	128,569,761	47,147,364
Net acquisitions of bank premises, furniture, fixtures and equipment	15	**(168,103,793)**	(123,371,264)	(71,418,634)
Net Cash From (Used In) Investing Activities		**(3,567,912,638)**	(267,792,057)	1,349,804,260
CASH FLOWS FROM FINANCING ACTIVITIES				
Net borrowings (payments) of bills payable		**(571,561,716)**	644,006,917	(1,091,519,591)
Proceeds from share issuance		**3,011,730,816**	-	
Collection of subsription receivable	21	**-**	375,000,000	-
Payment of cash dividends	21	**-**	(100,350,000)	-
Net Cash From (Used in) Financing Activities		**2,440,169,100**	918,656,917	(1,091,519,591)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**495,191,755**	2,462,082,114	2,619,450,720
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR				
Cash and other cash items	9	**435,898,545**	297,076,011	243,967,572
Due from Bangko Sentral ng Pilipinas	9	**3,073,180,153**	1,119,319,376	383,659,746
Due from other banks	10	**1,000,089,458**	630,690,655	385,008,004
Securities purchased under reverse repurchase agreements	14	**-**	-	1,169,000,000
		4,509,168,156	2,047,086,042	2,181,635,322
CASH AND CASH EQUIVALENTS AT END OF THE YEAR				
Cash and other cash items	9	**735,667,668**	435,898,545	297,076,011
Due from Bangko Sentral ng Pilipinas	9	**3,597,209,300**	3,073,180,153	1,119,319,376
Due from other banks	10	**671,482,943**	1,000,089,458	630,690,655
Securities purchased under reverse repurchase agreements	14	**-**	-	2,754,000,000
		P 5,004,359,911	P 4,509,168,156	P 4,801,086,042

Supplemental Information on Noncash Operating, Investing and Financing Activities

(1) In 2012, the Bank's stockholders approved the declaration of stock dividends amounting to P2.0 billion. This was distributed to stockholders in the same year (see Note 21).

(2) Transfers from loans and other receivables to investment properties as a result of foreclosures amounted to P16.9 million, P279.0 million and P127.9 million in 2013, 2012 and 2011, respectively (see Note 16), while transfers from loans and other receivables to other resources in 2012 and 2011 amounted to P2.7 million and P6.0 million, respectively are disclosed in Note 17 (nil in 2013). Amounts mentioned were exclusive of gains on foreclosure amounting to P6.2 million, P1.0 million and P32.0 million in 2013, 2012 and 2011, respectively (see Note 22).

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012
(Amounts in Philippine Pesos or As Indicated)

1. CORPORATE MATTERS

1.01 Incorporation and Operations

Philippine Business Bank, Inc. A Savings Bank (the Bank or PBB) was incorporated in the Philippines on January 28, 1997 to engage in the business of thrift banking. It was authorized to engage in foreign currency deposit operations on August 27, 1997 and in trust operations on November 13, 2003. As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). In this regard, the Bank is required to comply with rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and those relating to adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank's activities are subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791) and other relevant laws.

On January 9, 2013, the Philippine Stock Exchange (PSE) approved the Bank's application for the listing of its common shares. The approval covered the initial public offering (IPO) of 101,333,400 unissued common shares of the Bank at P31.50 per share and the listing of those shares in the PSE's main board on February 19, 2013 (see Note 21.01).

As of December 31, 2013 and 2012, the Bank operates within the Philippines with 100 and 79branches, respectively, located nationwide. For the years ended December 31, 2013 and 2012, the Bank opened 21 and 14 additional branches, respectively.

The Bank's registered address, which is also its principal place of business, is at 350 Rizal Avenue Extension corner 8th Avenue, Grace Park, Caloocan City.

1.02 Approval of the Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2013 (including the comparative financial statements for December 31, 2012 and the corresponding figures as of January 1, 2012) were authorized for issue by the Board of Directors (BOD) on April 11, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.01 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Financial Reporting Standards in the Philippines for Banks

The financial statements of the Bank have been prepared in accordance with the financial reporting standards in the Philippines (FRSP) for banks. FRSP for banks are similar to Philippine Financial Reporting Standards (PFRS), except for the reclassification of certain financial assets previously classified under available-for-sale (AFS) securities due to the tainting of held-to-maturity (HTM) portfolio to HTM investment category, which are not allowed under PFRS, but allowed under FRSP as permitted by the BSP for prudential regulation, and by the Securities and Exchange Commission (SEC) for financial reporting purposes.

Under PFRS, the Bank is not allowed to classify financial assets under HTM investments for at least two years upon tainting of its investments in 2006. However, in 2008, the Bank reclassified financial assets previously classified as AFS securities due to tainting of HTM portfolio back to HTM investment category for prudential reporting purposes (see Note 13) as allowed under FRSP. The unamortized fair value gains related to debt securities previously reclassified from AFS securities to HTM investments amounted to P0.2 million and P0.5 million for 2012 and 2011, respectively (nil in 2013).

PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared using the measurement bases specified by PFRS for each type of resource, liability, income and expense. The measurement bases are more fully described in the accounting policies in the succeeding pages.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements. The Bank presents the "Statement of Comprehensive Income" in two statements: a "Statement of Income" and a "Statement of Comprehensive Income".

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

The Bank's adoption of PAS 19 (Revised), Employee Benefits, resulted in material retrospective restatements on certain accounts as of December 31, 2012 and in the corresponding figures as of January 1, 2012 [see Note 2.02(a)(ii)]. Accordingly, the Company presents a third statement of financial position as of January 1, 2012 without the related notes, except for the disclosures required under PAS 8, Accounting Polices, Changes in Accounting Estimates and Errors and those required by the SEC for listed entities.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates. The financial statements of the Bank's foreign currency deposit unit (FCDU) which is reported in its functional currency, the United States (US) dollars, are translated using the closing exchange rate (for the statement of financial position accounts) and average exchange rate during the year (for profit and loss accounts).

2.02 Adoption of New and Amended PFRS

(a) Effective in 2013 that are Relevant to the Bank

In 2013, the Bank adopted for the first time the following new PFRS, revisions, amendments and annual improvements thereto that are relevant to the Bank and effective for financial statements for the annual period beginning on or after July 1, 2012 or January 1, 2013:

PAS 1 (Amendment)	:	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income

PAS 19 (Revised)	:	Employee Benefits
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
PFRS 13	:	Fair Value Measurements
Annual Improvements	:	Annual Improvements to PFRS (2009-2011 Cycle)

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

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

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

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

In 2013, the Bank has applied PAS 19 (Revised) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative amounts disclosed in prior years and adjusted the cumulative effect of the changes against the December 31, 2012 and January 1, 2012 balances of the affected resources, liabilities, and equity components are shown below and in the succeeding pages.

	December 31, 2012		
	As Previously Reported	Effects of Adoption of PAS 19	As Restated
Changes in asset and liability:			
Other resources	P 986,674,737	P 6,755,303	P 993,430,040
Accrued expenses and other liabilities	(1,480,537,015)	(22,517,676)	(1,503,054,691)
Net decrease in equity		(P 15,762,373)	
Changes in components of equity:			
Revaluation reserves	-	(20,570,443)	(20,570,443)
Surplus free	1,039,775,710	4,808,070	1,044,583,780
Net decrease in equity		(P 15,762,373)	
Changes in asset and liability:			
Other resources	P 194,341,988	P 4,115,510	P 198,457,498
Accrued expenses and other liabilities	(6,791,741)	(13,718,367)	(20,510,108)
Net decrease in equity		(P 9,602,857)	

Forward

Changes in components of equity:			
Revaluation reserves	-	(14,106,718)	(14,106,718)
Surplus free	1,039,775,710	4,503,861	2,490,066,655
Net decrease in equity		(P 9,602,857)	

The effects of the adoption of PAS 19 (Revised) on the statements of profit or loss and statement of comprehensive income for the years December 31, 2012 and 2011 are shown below.

	2012		
	As Previously Reported	Effects of Adoption of PAS 19	As Restated
Changes in profit or loss:			
Interest expense – others	P -	P 1,297,045	P 1,297,045
Salaries and other employee Benefits	322,525,023	(1,731,629)	320,793,394
Tax expense	56,431,793	130,375	56,562,168
Net decrease in profit or loss		P 304,209	

	2011		
	As Previously Reported	Effects of Adoption of PAS 19	As Restated
Changes in profit or loss:			
Interest expense – others	P -	P 137,274	P 137,274
Salaries and other employee Benefits	255,380,659	(P 117,381)	255,263,277
Tax expense	99,561,375	(5,968)	99,555,407
Net decrease in profit or loss		P 13,925	

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation.* The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's statement of financial position. The details and outstanding balances of financial assets and liabilities that are subject to offsetting are disclosed in Note 6.02.

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

Other than the additional disclosures presented in Note 7, the application of this new standard has no significant impact on the amounts recognized in the financial statements.

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

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

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

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

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

(b) Effective in 2013 that are not relevant to the Bank

The following revisions, amendments, annual improvements and interpretation to PFRS are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Bank's financial statement:

PFRS 1 (Amendment)	:	First-time Adoption of PFRS – Government Loan
PAS 27 (Revised)	:	Separate Financial Statements
PAS 28 (Revised)	:	Investments in Associate and Joint Venture
PFRS 10	:	Consolidated Financial Statements
PFRS 11	:	Joint Arrangements
PFRS 12	:	Disclosure of Interests in Other Entities
PFRS 10, 11 and 12 (Amendments)	:	Amendments to PFRS 10, 11 and 12 – Transition Guidance to PFRS 10, 11 and 12
Annual Improvement PAS 1 (Amendment)	:	First time Adoption of PFRS – Repeated Application of PFRS 1 and Borrowing Cost
Philippine Interpretation International Financial Reporting Interpretation Committee 20	:	Stripping Costs in the Production Phase of a Surface Mine

(c) Effective Subsequent to 2013 but not Adopted Early

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2013. Management has initially determined the following pronouncements, which the Bank will apply in accordance with their transitional provisions, to be relevant to its financial statements:

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

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

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

(iv) PAS 39 (Amendment) *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective January 1, 2014). The amendment provides some relief from the requirement on hedge accounting by allowing entities to continue the use of hedging accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. The Bank enters into transactions involving derivative instruments but does not apply hedge accounting, hence the amendment will not have an impact on the Bank's financial statements.

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

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

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

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

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

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

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

Annual Improvements to PFRS (2010 – 2012 Cycle)

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

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

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

Annual Improvements to PFRS (2011-2013 Cycle)

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

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

2.03 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity or net assets. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.16).

Negative goodwill which is the excess of the Bank's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Bank is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.04 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Bank's products and services as disclosed in Note 8.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies of the Bank used for segment reporting under PFRS 8, Operating Segments, is the same as those used in its financial statements. In addition, corporate resources which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

The Bank's operations are organized according to the nature of the products and services provided. Financial performance on operating segments is presented in Note 8.

2.05 Financial Instruments

2.05.01 Financial Assets

Financial assets, which are recognized when the Bank becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, HTM investments and AFS securities. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

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

The foregoing categories of financial instruments of the Bank are more fully described below.

(a) Financial Assets at FVTPL

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the Bank to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

(b) AFS Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Bank's AFS securities include government securities and corporate bonds.

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

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

(c) HTM Investments

This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as HTM if the Bank has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification.

If the Bank were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified to AFS securities under PFRS, and the Bank will be prohibited from holding investments under the

HTM investments category for the next two financial reporting years after the year the tainting occurred. Under FRSP, however, the Bank was allowed to reclassify from AFS securities to HTM investments category in 2008 despite being tainted until 2008. The tainting provision under PFRS will not apply if the sales or reclassifications of HTM investments are (i) so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; (ii) occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or (iii) are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank. The Bank currently holds listed sovereign bonds designated into this category.

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

(d) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, securities purchased under reverse repurchase agreements (SPURRA), sales contract receivables and all receivables from customers and other banks.

The Bank's financial assets categorized as loans and receivables are presented as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Other Receivables, and Other Resources (specifically Security deposits, Petty cash fund and Foreign currency notes and coins on hand) in the statement of financial position. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks and SPURRA.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Any change in their value is recognized in profit or loss, except for increases in fair values of reclassified financial assets under PAS 39 and PFRS 7. Increases in estimates of future cash receipts from such financial assets shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the financial asset at the date of the change in estimate.

Impairment loss is provided when there is objective evidence that the Bank will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows. Impairment is established through an allowance account which is charged to expense. Loans and receivables are written off against the allowance for impairment when management believes that the collectibility of the principal is unlikely, subject to BSP regulations.

All income and expenses, including impairment losses relating to financial assets are recognized in the statement of comprehensive income.

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

Derecognition of financial assets occurs when the contractual rights to receive cash flows from the financial instruments expire and substantially all of the risks and rewards of ownership have been transferred.

2.05.02 Derivative Financial Instruments

The Bank uses derivative financial instruments to manage its risks associated with fluctuations in foreign currency. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Bank's derivative instruments provide economic hedges under the Bank's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to profit or loss for the period.

2.05.03 Offsetting Financial Instruments

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

2.05.04 Impairment of Financial Assets

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

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

(a) Assets Carried at Amortized Cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and other receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.
If loans and other receivables or HTM investments have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.
The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

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

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur.

(b) Assets Carried at Fair Value

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for AFS securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses recognized in the statement of income on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as AFS securities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized the impairment loss is reversed through the statement of income.

(c) Assets Carried at Cost

The Bank assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

2.05.05 Financial Liabilities

Financial liabilities include deposit liabilities, bills payable and accrued expenses and other liabilities (excluding tax payables and post-employment benefit obligation) and are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest Expense in the statement of income.

Deposit liabilities and bills payable are recognized initially at their fair value, which is the issuance proceeds (fair value of consideration received) net of direct issue costs, and are subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments. Any difference between proceeds net of transaction costs and the redemption value is recognized in the statement of income over the period of the borrowings.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Bank subject to the approval of the BSP.

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

2.06 Other Resources

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

2.07 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost. Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

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

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Building	50 years
Furniture, fixtures and equipment	5-7 years
Transportation equipment	5 years

Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements of 5 to 20 years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16).

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

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.08 Investment Properties

Investment properties are accounted for under the cost model. The cost of an investment property comprises its purchase price and directly attributable cost incurred. These include land and building acquired by the Bank from defaulting borrowers. For these assets, cost is recognized initially at fair value of the investment properties unless: (i) the exchange transaction lacks commercial substance; or (ii) neither the fair value of the asset received nor the asset given up is reliably measurable. The difference between the fair value of the asset received and the carrying amount of the loan settled through foreclosure of investment properties is recognized as Gain or loss on foreclosure under Miscellaneous Income or Expense account in the statement of income. Investment properties except land are depreciated over a period of five to ten years.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized as Gain or loss on sale of properties under Miscellaneous Income or Expenses in the year of retirement or disposal.

2.09 Intangible Assets

Intangible assets include goodwill, acquired branch licenses and computer software included as part of other resources which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over the estimated useful life lives as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.16.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition.

Goodwill and branch licenses are classified as intangible assets with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.16). For purposes of impairment testing, goodwill and branch licenses are allocated to cash-generating units (see Note 2.16) and is subsequently carried at cost less any accumulated impairment losses.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.10 Provisions and Contingencies

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

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

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

2.11 Equity

Preferred and common shares represent the nominal value of the shares that have been issued.

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.

Appropriated surplus pertains to appropriations made by the Bank for a portion of the Bank's income from trust operations set-up in compliance with BSP regulations.

Unappropriated surplus includes all current and prior period results of operations as disclosed in the statement of income, less appropriated surplus and dividends declared.

Revaluation reserves comprise remeasurements of post-employment defined benefit plan.

Unrealized fair value gains (losses) on AFS securities pertain to cumulative mark-to-market valuation of AFS securities, net of amortization of fair value gains or losses on reclassified financial assets.

2.12 Related Party Relationships and Transactions

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

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

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

2.13 Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Bank; and the expenses and costs incurred and to be incurred can be measured reliably. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. In addition to specific recognition criteria in the succeeding page must also be met before revenue is recognized.

2.13.01 Interest Income and Expense

Interest income and expense are recognized in the statement of income for all financial instruments using the effective interest method.

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

2.13.02 Trading Gains

Trading gains are recognized when the ownership of the security is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the security. Trading gains also result from the mark-to-market valuation of the securities classified as FVTPL at the valuation date.

2.13.03 Service Charges, Fees and Commissions

Service charges, fees and commissions are generally recognized on an accrual basis when the service has been provided. Other service fees are recognized based on the applicable service contracts, usually on a time-appropriate basis.

2.14 Leases

The Bank accounts for its leases as follows:

(a) Bank as Lessee

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

(b) Bank as Lessor

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

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

2.15 Foreign Currency Transactions and Translation

The accounting records of the Bank's regular banking unit are maintained in Philippine pesos while the FCDU are maintained in US dollars, its functional currency. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

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

Changes in the fair value of monetary financial assets denominated in foreign currency classified as AFS securities are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

2.16 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, investment properties, goodwill, branch licenses, other properties held for sale (classified as Miscellaneous under Other Resources) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level. An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment loss is charged pro rata to the other assets in the cash generating unit.

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

2.17 Employee Benefits

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution plan.

(a) Post-employment Defined Benefit Plan

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

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

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

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

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity (e.g. Social Security System and Philhealth). The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) Bonus Plans

The Bank recognizes a liability and an expense for employee bonuses, based on a formula that is fixed regardless of the Bank's income after certain adjustments and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.18 Income Taxes

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

2.19 Earnings Per Share (EPS)

Basic earnings per share are determined by dividing net profit by the weighted average number of common shares subscribed and issued during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted earnings per common share are also computed by dividing net profit by the weighted average number of common shares subscribed and issued during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares as approved by the SEC. Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares.

As of December 31, 2013 and 2012, the Bank has no convertible preferred shares (see Note 21.01).

2.20 Trust Operations

The Bank acts as trustee and in other fiduciary capacity that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and their income arising thereon are excluded from these financial statements, as these are neither resources nor income of the Bank.

2.21 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.01 Critical Management Judgments in Applying Accounting Policies

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

(a) Classifying Financial Assets at HTM Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity.

If the Bank fails to keep these investments at maturity other than for the allowed specific circumstances for example, selling an insignificant amount close to maturity, it will be required to reclassify the entire class to AFS securities. The investments would therefore be measured at fair value and not at amortized cost. However, the tainting provision will not apply if the sales or reclassifications of HTM investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank.

In 2008, the BSP and the SEC allowed the reclassification of certain financial assets that were previously classified under financial assets at FVTPL and AFS securities categories, due to the tainting in 2006, back to HTM investments or loans and receivables. Accordingly, despite the tainting prohibition until 2008, the Bank reclassified its investments in debt securities previously classified under FVTPL and AFS securities to HTM investments amounting to P18.8 million and P2,130.8 million, respectively, representing the fair value of the reclassified investments on September 11, 2008, the effective date of reclassification (see Note 12), as allowed under FRSP for banks.

On September 14, 2009, however, the Bank reclassified its remaining HTM investments to AFS securities with carrying value of P2,621.7 million (see Note 12). As such, the Bank was not allowed to classify as HTM investments its existing and new acquisitions of financial assets due to tainting until 2011.

(b) Impairment of AFS Securities

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

Based on the recent evaluation of information and circumstances affecting the Bank's AFS securities, management concluded that no assets are impaired as of December 31, 2013 and 2012. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(c) Distinguishing Investment Properties and Owner-occupied Properties

The Bank determines whether a property qualifies as investment property. In making this judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to properties but also to other assets used in the production or supply process.

Some properties may comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in providing services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Bank accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in providing services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(d) Classifying of Acquired Properties and Determining Fair Value of Investment Properties and Other Properties Held-for-Sale

The Bank classifies its acquired properties (foreclosed properties) as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as other properties held for sale presented as Miscellaneous under Other Resources if the Bank expects that the properties (properties other than land and building) will be recovered through sale rather than use, as Investment Properties if the Bank intends to hold the properties for capital appreciation or as financial assets in accordance with PAS 39. At initial recognition, the Bank determines the fair value of acquired properties based on valuations performed by both internal and external appraisers. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

(e) Distinguishing Operating and Finance Leases

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

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.10 and relevant disclosures are presented in Note 26.

3.02 Key Sources of Estimation Uncertainty

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

(a) Estimating Impairment of Financial Assets (AFS Securities, HTM Investments and Loans and Other Receivables)

The Bank reviews its AFS securities, HTM investments and loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.
The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying value of loans and other receivables and the analysis of the related allowance for impairment on such financial assets are shown in Notes 14. There are no impairment losses recognized on AFS securities and HTM investments in 2013, 2012 and 2011.

(b) Fair Value of Financial Instruments

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

The carrying values of the Bank's financial assets at FVTPL and AFS securities and the amounts of fair value changes recognized on those assets are disclosed in Notes 11 and 12, respectively.

(c) Determining Fair Value of Financial Assets and Liabilities

Financial assets and liabilities measured at fair value in the statement of financial position are categorized in accordance with the fair value hierarchy based on PFRS 7. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As of December 31, 2013, financial assets at FVTPL and AFS securities amounting to P917.5 million and P7,908.0 million, respectively, are the only financial assets (nil for liabilities) measured at fair value while as of December 31, 2012, AFS securities amounting to P5,784.5 million, are the only financial assets (nil for liabilities) measured at fair. The financial asset values are determined under Level 1 of the fair value hierarchy.

There have been no significant transfers among Levels 1, 2 and 3 in the reporting periods.

(d) Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment and Investment Properties Except Land

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of bank premises, furniture, fixtures and equipment and investment properties are analyzed in Notes 15 and 16, respectively. Based on management assessment, there is no change in the estimated useful lives of these assets during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Determining Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets, which the management assessed to be fully utilized within the next two to three years, as of December 31, 2013 and 2012 is disclosed in Notes 17 and 25.

(f) Estimating Impairment Losses of Non-financial Assets

Except for intangible assets with indefinite useful lives (i.e. goodwill and acquired branch licenses), PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.16. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Allowance for impairment recognized on investment properties and other properties held for sale are discussed in Notes 16 and 17. There are no impairment losses recognized in goodwill, acquired branch licenses, bank premises, furniture, fixtures and equipment.

(g) Valuation of Post-employment Benefits

The determination of the Bank's obligation and cost of post-employment benefit plan is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rates and expected rate of salary increases. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of DBO are presented in Note 23.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

PBB, as a financial institution, is in the business of risk taking. Its activities expose the Bank to credit, market and liquidity, and operational risks. Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio. Liquidity risk may arise from shortage in funding and/or lack of market for sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events, including legal risk but excludes reputational risk.

Although risks are inherent in the Bank's activities, these are carefully managed through a process of identification, measurement, and monitoring subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

4.01 Risk Management Milestones for 2013

The year 2013 is a year of many achievements for PBB. The Bank recognizes that it is necessary to continually advance on its risk management techniques and marry this into the overall strategic business objectives to support the growth objectives of the bank.

PBB invested in a new Treasury system which has automated the front-office, back office, and middle office operations. This includes the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and automated value-at-risk (VaR) calculations.

In addition to the automation, the Bank continues to review its limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover market risk exposures.

On the credit side, the Bank has instituted improvements on its credit policies, which includes large exposure and credit concentration. Credit process streamlining has also been initiated to ensure that commensurate controls are in place while the Bank continues to device ways to improve on its credit process.

As for operational risk, the Bank has completed the bankwide operational risk and control self-assessment (ORCSA) in support of the enterprise risk management framework of the Bank. With this, there is also an enterprise-wide training on risk awareness to ensure appreciation and measurement of key risks of each unique business and support units and how these relate to the over-all objective and strategies of the Bank. In addition, information security policies were further strengthened, implemented, and disseminated across all units of the Bank.

4.02 Enterprise Risk Management Framework

The Bank adopts an Enterprise Risk Management framework as its integrated approach to the identification, measurement, control and disclosure of risks. The Bank has an integrated process of planning, organizing, leading, and controlling its activities in order to minimize the effects of risk on its capital and earnings. The Bank's BOD formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Oversight Committee (ROC), which in turn supervises the Chief Risk Officer and Head of the Risk Management Center in the development and implementation of risk policies, processes and guidelines. The framework covers operational, market and liquidity, credit and counterparty and other downside risks within the context of the supervision by risk guidelines of the BSP and aligned best practices on risk management.

4.03 Credit Risk

Credit risk pertains to the risk to income or capital due to non-payment by borrowers or counterparties of their obligations, either in full or partially as they fall due, deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced recovery from a credit facility in the event of default. This is inherent in the Bank's lending, investing, and trading and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring.

Credit risk is managed through a continuing review of credit policies, systems, and procedures. It starts with the definition of business goals and setting of risk policies by the Board of Directors (BOD). Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits. The Risk Management Center, as guided by the ROC, performs an independent portfolio oversight of credit risks and reports regularly to the BOD and the ROC.

On the transactional level, exposure to credit risk is managed through a credit review process wherein a regular analysis of the ability of the obligors and potential obligors to meet interest and capital repayment obligations is performed. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Moreover, in accordance with best practices, the Bank also adopts an internal credit risk rating system (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner as accurately as possible and uses this information as a tool for business and financial decision-making. This rating system covers companies with assets of over P15.0 million and is adopted from the Banker's Association of the Philippines (BAP) model which has been approved by the BSP as a minimum standard for an internal risk rating system under BSP Circular 439. This rating system has two components namely: (a) Borrower Risk Rating System which provides an assessment of credit risk without considering the security arrangements and; (b) Facility Risk Rating which takes into account the collateral and other credit risk mitigants. The rating scale consists of ten (10) grades, the top six (6) of which falls under unclassified accounts and the bottom four (4) under classified accounts, consistent with regulatory provisioning guidelines.

Pursuant to regulatory requirements and best practices, the Bank also conducts sensitivity analysis and stress testing of the credit portfolio to assess sensitivity of the Bank's capital to BOD-approved credit risk scenarios.

The following table shows the Bank's maximum exposure to credit risk on loans and other receivables as of December 31, 2013 and 2012 (amounts in thousands):

	2013	2012
Individually impaired		
Wholesale and retail trade	**P 750,905**	P 421,951
Real estate, renting and construction	**618,976**	409,315
Manufacturing	**70,357**	87,631
Consumption	**34,895**	28,688
Others	**476,679**	1,125,617
Gross amount	**1,951,812**	2,073,202
Allowance for impairment	**(305,292)**	(451,979)
Carrying amount	**1,646,520**	1,621,223
	2013	2012
Collectively impaired		
Wholesale and retail trade	**4,861,713**	-
Others	**9,429,843**	2,805
Gross amount	**14,291,556**	2,805
Allowance for impairment	**(289,303)**	(2,805)
Carrying amount	**14,002,253**	-
Past due but not impaired		
Carrying amount	**12,354**	4,629
Neither past due nor impaired		
Gross amount	**15,938,786**	19,346,130
Allowance for impairment	**-**	(102,830)
Carrying amount	**15,668,850**	19,243,300
Total carrying amount	**P 31,599,913**	P 20,869,152

In addition to default and concentration risk arising from lending activities, the Bank has an incremental issuer credit risk exposure emanating from Trading and Investment Securities and Due from Other Banks amounting to P8,834.2 million and P671.5 million, respectively, as of December 31, 2013 and P5,784.5 million and P1,000.1 million, respectively, as of December 31, 2012. These are considered as neither past due nor impaired.

The carrying amount of the above loans and other receivables are partially secured with collateral mainly consisting of real estate and chattel mortgage.

The Due from BSP account represents the aggregate balance of non-interest-bearing deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as a clearing account for interbank claims. Hence, no significant credit risk is anticipated for this account.

4.04 Market Risk

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets that are either carried in the banking book or held as positions in the trading book (financial instruments), mismatches in the contractual maturity of its assets and liabilities, embedded optionality in the loans and deposits due to pre-terminations, and potential cash run offs arising from changes in overall liquidity and funding conditions in the market. Market risk related to the Bank's financial instruments includes foreign currency, interest rate and price risks.

4.04.01 Foreign Currency Risk

The Bank manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's foreign currency exposure is primarily limited to the foreign currency deposits, which are sourced within the Philippines or generated from remittances by Filipino expatriates and overseas Filipino workers. Also, foreign currency trading with corporate accounts and other financial institutions is a source of foreign currency exposure for the Bank.
At the end of each month, the Bank reports to the BSP on its acquisition and disposition of foreign currency resulting from its daily transactions.

The breakdown of the financial resources and liabilities as to foreign currency (translated into peso) and peso denominated balances as of December 31, 2013 and 2012 follow (amounts in thousands):

	2013		
	Foreign Currency	**Peso**	**Total**
Financial Resources:			
Cash and other cash items	P -	P 733,668	P 733,668
Due from BSP	-	3,597,209	3,597,209
Due from other banks	194,092	477,391	671,483
Financial assets at FVTPL	-	917,630	917,630
AFS securities	2,558,064	5,349,986	7,908,050
HTM securities	-	8,656	8,656
Loans and other receivables - net	633,900	30,966,013	31,599,913
Other resources	35,575	242	35,817
	P 3,421,631	P 42,050,795	P 45,472,426
Financial Liabilities:			
Deposit liabilities	P 3,448,965	P 34,433,046	P 37,882,011
Bills payable	-	193,928	193,928
Accrued expenses and other liabilities	288,705	2,097,883	2,386,588
	P 3,737,670	P 36,724,857	P 40,462,527

	2012		
	Foreign Currency	Peso	Total
Financial Resources:			
Cash and other cash items	P -	P 435,899	P 435,899
Due from BSP	-	3,073,180	3,073,180
Due from other banks	864,129	135,960	1,000,089
AFS securities	1,286,940	4,497,597	5,784,537
Loans and other receivables - net	399,546	20,469,607	20,869,153
Other resources	33,269	13,034	46,303
	P 2,583,884	P 28,625,277	P 31,209,161

Forward

Financial Liabilities:			
Deposit liabilities	P 2,131,604	24,317,283	P 26,448,887
Bills payable	-	765,490	765,490
Accrued expenses and other liabilities	210	1,426,060	1,426,270
	P 2,131,814	P 26,508,833	P 28,640,647

4.04.02 Interest Rate Risk

Interest rate risk is the probability of decline in net interest earnings as a result of an adverse movement of interest rates.

In measuring interest rate exposure from an earnings perspective, the Bank calculates the Earnings at Risk (EAR) to determine the impact of interest rate changes on the Bank's accrual portfolio. The EAR is the potential decline in net interest income due to the adverse movement in interest rates. To quantify interest rate exposure, the statement of financial position is first classified into interest rate sensitive and non-interest rate sensitive asset and liability accounts and then divided into pre-defined interest rate sensitivity gap tenor buckets with corresponding amounts slotted therein based on the term to next re-pricing date (the re-pricing maturity for floating rate accounts) and remaining term to maturity (the equivalent re-pricing maturity for fixed rate accounts).

The rate sensitivity gaps are calculated for each time band and on a cumulative basis. The gap amount for each bucket is multiplied by an assumed change in interest rate to determine EAR. A negative interest rate sensitivity gap position implies that EAR increases with a rise in interest rates, while a positive interest rate sensitivity gap results in a potential decline in net interest rate income as interest rates fall. To supplement the EAR, the Bank regularly employs sensitivity analysis on the Bank's interest rate exposure.

To mitigate interest rate risk, the Bank follows a prudent policy on managing assets and liabilities so as to ensure that exposure to interest rate risk are kept within acceptable levels. The BOD has also approved the EAR Limit which is reviewed regularly.

The analyses of the groupings of resources, liabilities, capital funds and off-statement of financial position items as of December 31, 2013 and 2012 based on the expected interest realization or recognition are presented below (amounts in thousands).

	2013					
	Less than One Month	**One to Three Months**	**Three Months to One Year**	**More than One Year**	**Non-rate Sensitive**	**Total**
Resources						
Cash and other cash items	P -	P -	P -	P -	P 735,668	P 735,668
Due from BSP	-	-	-	-	3,597,209	3,597,209
Due from other banks	-	-	-	-	671,483	671,483
Trading and investment securities	-	-	18,475	8,815,760	-	8,834,235
Loans and other receivables - net	22,552,623	3,324,749	2,477,044	2,387,329	858,168	31,599,913
Other resources	-	-	-	-	1,553,220	1,553,220
Total Resources	22,552,623	3,324,749	2,495,519	11,203,089	7,415,748	46,991,729
Liabilities and Equity						
Deposit liabilities	6,590,754	13,363,263	4,656,937	603,578	12,667,480	37,882,011
Bills payable	164,690	29,238	-	-	-	193,928

Forward

Accrued expenses and other liabilities	-	-	-	-	1,887,029	1,887,029
Total Liabilities	6,755,444	13,392,501	4,656,937	603,578	14,554,509	39,962,968
Equity	-	-	-	-	7,028,761	7,028,761
Total Liabilities and Equity	6,755,444	13,392,501	4,656,937	603,578	21,583,270	46,991,729
On-book Gap	15,797,180	(10,067,751)	(2,161,417)	10,599,511	(14,167,522)	-
Cumulative On-book Gap	15,797,180	5,729,428	3,568,011	14,167,522	-	-
Contingent Resources	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	1,349,359	1,349,359
Off-book Gap	-	-	-	-	(1,349,359)	(1,349,359)
Net Periodic Gap	15,797,180	(10,067,751)	(2,161,417)	10,599,511	(15,516,881)	(1,349,359)
Cumulative Total Gap	P 15,797,180	P 5,729,428	P 3,568,011	P 14,167,522	(P 1,349,359)	P -

	2012 (As Restated)					
	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-rate Sensitive	Total
Resources						
Cash and other cash items	P -	P -	P -	P -	P 435,899	P 435,899
Due from BSP	-	-	-	-	3,073,180	3,073,180
Due from other banks	-	-	-	-	1,000,089	1,000,089
Trading and investment securities	-	12,519	-	5,772,018	-	5,784,537
Loans and other receivables - net	13,895,370	2,581,732	1,041,690	2,796,671	553,690	20,869,153
Other resources	-	-	-	-	46,303	46,303
Total Resources	13,895,370	2,594,251	1,041,690	8,568,689	5,109,161	31,209,161
Liabilities and Equity						
Deposit liabilities	4,745,448	8,931,734	3,929,460	342,640	8,499,605	26,448,887
Bills payable	711,342	54,148	-	-	-	765,490
Accrued expenses and other liabilities	-	-	-	-	1,426,270	1,426,270
Total Liabilities	5,456,790	8,985,882	3,929,460	342,640	9,925,875	28,640,647
Equity	-	-	-	-	4,386,589	4,386,589
Total Liabilities and Equity	5,456,790	8,985,882	3,929,460	342,640	14,312,464	33,027,236
On-book Gap	8,438,580	(6,391,631)	(2,887,770)	8,226,049	(9,203,303)	(1,818,075)

Forward

Cumulative On-book Gap	8,438,850	2,046,949	(840,821)	7,385,228	(1,818,075)	-
Contingent Resources	29,443	192,181	1,000	1,357,141	-	1,579,765
Contingent Liabilities	-	-	-	-	769,381	769,381
Off-book Gap	29,443	192,181	1,000	1,357,141	(769,381)	810,384
Net Periodic Gap	8,468,023	(6,199,449)	(2,886,770)	9,583,189	(9,972,684)	(1,007,691)
Cumulative Total Gap	P 8,468,023	P 2,268,574	(P 618,197)	P 8,964,992	(P 1,007,691)	P -

4.04.03 Price Risk

In measuring the magnitude of exposures related to the Bank's trading portfolio arising from holding of government and other debt securities, the Bank employs Value-at-Risk (VaR) methodology. VaR is an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movement of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Bank uses a 99% confidence level for this measurement (i.e. losses could exceed the VaR in one out of 100 trading days).

In calculating the severity of the market risk exposure for fixed income securities, the Bank takes into account the cash flow weighted term or modified duration of the securities comprising the portfolio, the yield to maturity, and mark-to-market value of the component securities position in the trading book. As the VaR methodology requires a minimum historical period of reckoning with market movements from a transparent discovery platform, the Bank uses yield and price data from the Philippine Dealing Exchange Corporation and Bloomberg in the calculation of the volatility of rates of return and security prices, consistent with BSP valuation guidelines.

In assessing market risk, the Bank scales the calculated VaR based on assumed defeasance or holding periods that range from one day and 10 days consistent with best practices and BSP standards.

As a prudent market risk control and compliance practice, the BOD has approved a market risk limit system which includes: (1) VaR limit on a per instrument and portfolio; (2) loss limit on per investment portfolio (3) off-market rate limits on per instrument type; and (4) holding period for investment securities.

In recognition of the limitations of VaR related to the assumptions on which the model is based, the Bank supplements the VaR with a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

The table below shows the VaR position of the Bank's financial assets at FVTPL and AFS portfolios as at December 31, 2013 and 2012.

VaR	2013	2012
Financial assets at FVTPL	P 14,852	P -
AFS securities	197,740	351,008

The table below shows the VaR ranges of the Bank's financial assets at FVTPL and AFS portfolios as at December 31, 2013 and 2012.

VaR	2013	2012
Minimum	P -	P -
Maximum	37,127	154,372
Average	13,409	80,961

Stress test on the December 31, 2013 and 2012 portfolio shows the potential impact on profit and capital funds of parallel increase in interest rates of financial assets at FVTPL, AFS securities and HTM investments as follows:

2013

Currency	**Current Market Value**	**Sensitivities +100 bps**	**+300 bps**	**+500 bps**
Peso	P 6,452,561,722	(P 794,463,165)	(P 2,383,389,495)	(P 3,972,315,825)
United States (US) Dollar	2,381,775,407	(299,110,963)	(897,332,890)	(1,495,554,817)
Total	**P 8,834,337,129**	**(P1,093,574,128)**	**(P 3,280,722,385)**	**(P 5,467,870,642)**

2012

Currency	Current Market Value	Sensitivities +100 bps	+300 bps	+500 bps
Peso	P 4,497,597,110	(P 510,920,994)	(P 1,532,762,982)	(P 2,554,604,971)
US Dollar	1,286,939,479	(143,873,333)	(431,620,000)	(719,366,667)
Total	P 5,784,536,589	(P 654,794,327)	(P 1,964,382,982)	(P 3,273,971,638)

4.04.04 Liquidity Risk

Liquidity risk is the risk to income and capital as a result of the Bank failing its commitment for funds as they fall due. The Bank manages its liquidity risk through the management's monitoring of various liquidity ratios, Treasury's weekly and regular assessment of liquidity gaps, and the maturity ladder. A maturity ladder relates the inflows to outflows of funds at selected maturity dates and is constructed to measure liquidity exposure. The ladder shows the Bank statement of financial position distributed into tenor buckets across the term structure on the basis of the term to final maturity or cash flow dates. The amount of net inflows which equals the difference between the amounts of contractually maturing assets (inflows) and liabilities (outflows) is computed per tenor bucket and on a cumulative basis incorporating certain behavioral and hypothetical assumptions regarding the flows from assets and liabilities including contingent commitments over time. The calculated periodic and cumulative gaps constitute the Bank's run off schedule, which indicate the Bank's net funding requirements in local and foreign currency.

To control liquidity gap risks, a quantitative ceiling to the net outflow of funds of the Bank called Maximum Cumulative Outflow (MCO) limit is observed per currency based on the recommendation of management, which model and assumptions are reviewed by the Asset and Liability Committee (ALCO) and the ROC prior to the confirmation by the BOD.

The analysis of the cash flow gap analysis of resources, liabilities, capital funds and off-statement financial position items as of December 31, 2013 and 2012 is presented below (amounts in thousands).

	2013				
	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
Resources:					
Cash and other cash items	P 735,668	P -	P -	P -	P 735,668
Due from BSP	3,597,209	-	-	-	3,597,209
Due from other banks	671,483	-	-	-	671,483
Trading and investment securities	483,021	117,517	335,466	7,898,231	8,834,235
Loans and other receivables	6,354,668	7,024,050	10,420,255	7,800,941	31,599,914
Other resources	468,341	-	65,115	1,019,763	1,553,219
Total Resources (balance carried forward)	P 12,310,390	P 7,141,567	P 10,820,836	P 16,718,935	P 46,991,728
Liabilities and Equity:					
Deposit liabilities	16,395,969	4,468,533	1,463,864	15,553,645	37,882,011
Bills payable	49,455	115,235	3,096	26,142	193,928
Accrued expenses and other liabilities	769,028	1,073,021	42,700	2,281	1,887,030
Total Liabilities	17,214,452	5,656,789	1,509,660	15,582,068	39,962,969
Capital Funds	-	-	-	7,028,761	7,028,761
Total Liabilities and Capital Funds	17,214,452	5,656,788	1,509,659	22,610,829	46,991,729
On-book Gap	(4,904,061)	1,484,779	9,311,177	(5,891,894)	-
Cumulative On-book Gap	(4,904,061)	(3,419,283)	5,891,895	-	-
Contingent Liabilities	68,302	551,494	597,725	131,798	1,349,319
Off-book Gap	(68,302)	(551,494)	(597,725)	(131,798)	(1,349,319)
Net Periodic Gap	(4,972,363)	933,285	8,713,452	(6,023,692)	1,349,319
Cumulative Total Gap	**(P 4,972,363)**	**(P 4,039,079)**	**P 4,674,374**	**(P 1,349,319)**	**P -**

Forward

	2012				
	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
Resources:					
Cash and other cash items	P 435,899	P -	P -	P -	P 435,899
Due from BSP	3,073,180	-	-	-	3,073,180
Due from other banks	1,000,089	-	-	-	1,000,089
Trading and investment securities	-	12,519	-	5,772,018	5,784,537
Loans and other receivables	4,037,469	5,841,434	5,473,295	5,516,955	20,869,153
Other resources	646,408	-	86,212	1,208,543	1,941,163
Total Resources	9,193,045	5,853,953	5,559,507	12,497,515	33,104,021
Liabilities and Equity:					
Deposit liabilities	11,836,943	2,742,416	1,006,487	10,863,041	26,448,887
Bills payable	117,780	286,344	205,310	156,056	765,490
Accrued expenses and other liabilities	490,613	980,735	1,765	29,942	1,503,055
Total Liabilities	12,445,336	4,009,495	1,213,562	11,049,039	28,717,432
Capital Funds	-	-	-	4,386589	4,386,589
Total Liabilities and Capital Funds	12,445,336	4,009,495	1,213,562	15,435,625	33,104,021
On-book Gap	(3,247,190)	1,859,151	4,345,672	(2,957,633)	-
Cumulative On-book Gap	(3,247,190)	(1,388,039)	2,957,633	-	-
Contingent Resources	29,443	192,181	1,000	1,357,141	1,579,765
Contingent Liabilities	38,796	277,209	447,650	5,726	769,381
Off-book Gap	(9,353)	(85,028)	(446,650)	1,351,415	810,384
Net Periodic Gap	(3,256,543)	(1,774,123	3,899,022	(1,606,218)	810,384
Cumulative Total Gap	(P 3,256,543)	(P 1,482,420)	P 2,416,602	P 810,384	P -

The negative liquidity gap in the MCO is due to the timing difference in the contractual maturities of assets and liabilities. The MCO measures the maximum funding requirement the Bank may need to support its maturing obligations. To ensure that the Bank maintains a prudent and manageable level of cumulative negative gap, the Bank maintains a pool of highly liquid assets in the form of tradable investment securities. Moreover, the BOD has approved the MCO Limits which reflect the Bank's overall appetite for liquidity risk exposure. This limit is reviewed every year. Compliance to MCO Limits is monitored and reported to the BOD and senior management. In case of breach in the MCO Limit, the Risk Management Center elevates the concern to the Board through the Risk Oversight Committee for corrective action.

Additional measures to mitigate liquidity risks include reporting of funding concentration, short-term liquidity reporting, available funding sources, and liquid assets analysis.

More frequent analysis of projected funding source and requirements as well as pricing strategies is discussed thoroughly during the weekly Asset and Liability Committee meetings.

5. CAPITAL MANAGEMENT AND REGULATORY CAPITAL

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets. PBB, being a stand-alone thrift bank, is required under BSP regulations to comply with Basel 1.5. Under this regulation, the qualifying capital account of PBB should not be less than an amount equal to ten per cent (10%) of its risk weighted assets.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio consists of Tier 1 capital plus Tier 2 capital elements net of the required deductions from capital such as:

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

Risk weighted assets is the sum of the Bank's credit risk weighted assets, operational risk weighted assets, and market risk weighted assets. The latter was due to the Bank's authority to engage in derivatives as end-user under a Type 3 Limited End-User Authority starting 4Q of 2012. Risk weighted assets are computed using the standardized approach for credit and market risks while basic indicator approach with modification was used for operational risks.

The following are the risk-based capital adequacy of the Bank for the year ending December 31, 2013 and, 2012, and 2011 (amounts in million Pesos):

	2013	2012	2011
Tier 1 Capital	**P 8,099**	P 4,080	P 3,155
Tier 2 Capital	**284**	180	121
Total Regulatory Capital	**8,383**	4260	3276.3
Deductions	**(258)**	(226)	(156)
Total Qualifying Capital	**P 8,125**	P 4,034	P 3,120
Tier 1 Capital	**P 8,099**	P 4,080	P 3,155
Tier 1 Capital Deductions	**(258)**	(226)	(156)
Net Tier 1 Capital	**P 7,841**	P 3,854	P 2,999
Risk Weighted Assets			
Credit Risk Weighted Assets	**30,820**	20,673	12,516
Operational Risk Weighted Assets	**1,831**	717	-
Market Risk Weighted Assets	**829**	-	-
Total Risk Weighted Assets	**P 33,480**	P 21,390	P 12,516
Capital ratios:			
Total qualifying capital expressed as percentage of total risk-weighted assets	**24.3%**	18.9%	24.9%
Net Tier 1 capital expressed as percentage of total risk-weighted assets	**23.4%**	18.0%	25.2%

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

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

A bank's regulatory capital is analyzed into two tiers, which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital equivalent to 50% of the following:

a. Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;
b. Investments in debt capital instruments of unconsolidated subsidiary banks;
c. Investments in equity of subsidiary insurance companies and non-financial allied undertakings;
d. Reciprocal investments in equity of other banks/enterprises; and
e. Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.,

Provided, that any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

As of December 31, 2013, the Bank has no exposure in item a to item e above. There were no material changes in the Bank's management of capital during the current year.

As of December 31, 2013 and , 2012, and 2011 the Bank has satisfactorily complied with the capital-to-risk assets ratio.

Under an existing BSP circular, thrift and savings banks are required to comply with the minimum capital requirement of P64.0 million. At the end of each reporting period, the Bank has complied with the foregoing capitalization requirement.

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

6.01 Carrying Amounts and Fair Values by Category

The following table summarizes the cost and fair values of those financial assets and liabilities not presented in the statement of financial position as financial assets at FVTPL and AFS securities.

	December 31, 2013	
	Cost	**Fair Value**
Financial Resources:		
Cash and other cash items	**P 735,667,668**	**P 735,667,668**
Due from BSP	**3,597,209,300**	**3,597,209,300**
Due from other banks	**671,482,943**	**671,482,943**
Held-to-Maturity securities	**8,656,409**	**8,656,409**
Loans and other receivables	**32,316,245,980**	**31,599,913,333**
Other resources	**35,816,947**	**35,816,947**

Forward

	December 31, 2013	
	Cost	**Fair Value**
Financial Liabilities:		
Deposit liabilities	**P 37,882,010,744**	**P 37,882,010,744**
Bills payable	**193,927,801**	**193,927,801**
Accrued expenses and other liabilities	**2,256,575,153**	**2,256,575,153**

	December 31, 2012	
	Cost	Fair Value
Financial Resources:		
Cash and other cash items	P 435,898,545	P 435,898,545
Due from BSP	3,073,180,153	3,073,180,153
Due from other banks	1,000,089,458	1,000,089,458
Loans and other receivables	21,426,766,835	20,869,152,721
Other resources	46,303,372	46,303,372
Financial Liabilities:		
Deposit liabilities	P 26,448,886,738	P 26,448,886,738
Bills payable	765,489,517	765,489,517
Accrued expenses and other liabilities	1,426,270,239	1,426,270,239

The fair values of financial assets and liabilities not presented at fair value in the statement of financial position are determined as follows:

(i) Due from BSP and other banks

Due from BSP pertains to deposits made by the Bank to BSP for clearing and reserve requirements. Due from other banks includes interbank deposits and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(ii) Loans and other receivables

Loans and other receivables are net of impairment losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Long term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

(iii) Other resources

Other resources are composed of foreign currency notes and coins, security deposits and petty cash fund. Due to their short duration, the carrying amounts of these items in the statement of financial position are considered to be reasonable approximation of their fair values.

(iv) Deposits and bills payable

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and bills payable without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amounts of deposits and bills payable already approximate their fair values.

(v) *Accrued expenses and other liabilities*

Accrued expenses and other liabilities, except for post-employment benefit obligation and tax liabilities, are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Fair value of these short-term liabilities approximates their carrying values.

6.02 Offsetting of Financial Assets and Liabilities

The following financial assets of the Bank with amounts presented in the statements of financial position as of December 31, 2013 and 2012 are subject to offsetting, enforceable master netting arrangements and similar agreements (in millions):

	December 31, 2013			December 31, 2012		
	Related amounts not set off in the statement of financial position			Related amounts not set off in the statement of financial position		
	Financial instruments	**Collateral received**	**Net amount**	Financial instruments	Collateral received	Net amount
Financial assets						
Loans and receivables						
Receivable from customers	P 2,277	P 2,277	P -	P 1,475	P 1,475	P -
Total financial assets	P 2,277	P 2,277	P -	P 1,475	P 1,475	P -

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

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.01 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

7.02 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Company's classes of financial assets and financial liabilities measured at fair value in the statement of financial position on a recurring basis as of December 31,2013 and 2012.

	Level 1	Level 2	Level 3	Total
December 31, 2013				
Financial assets at FVTPL				
Government bonds	P 918	P -	P -	P918
AFS securities				
Government debt securities	88	7,802	-	7,890
Other debt securities	18	-	-	18
	106	7,802	-	7,908
	P 1,024	P 7,802	P -	P8,826

The Bank has no financial liabilities measured at fair value as of December 31, 2013 and 2012.

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

The fair value of the debt securities of the Bank determined as follows:

(i) For peso-denominated government debt securities issued by the Philippine government, market valuation is done in compliance with BSP Circular 813, issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013. The Circular further defines benchmarks on the market valuation of peso-denominated government securities. The benchmark or reference prices of peso-denominated government securities shall be based on the weighted average of done or executed deals in a trading market registered with the SEC (i.e., PDEX). In the absence of done deals, the simple average of all firm bids per benchmark tenor shall be used in calculating the benchmark, provided that the simple average of all firm per benchmark tenor shall likewise be included as soon as permissible under securities laws and regulations. In the absence of both done and bid rates, particularly for non-benchmark securities, interpolated yields from the benchmark or reference rates in accordance with the BSP-approved guidelines for the computation of reference rates for peso-denominated government securities shall be used.

(ii) For other quoted debt securities, fair value is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

7.02 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the 2013 statement of financial position but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
December 31, 2013				
Resources:				
Cash and other cash items	P 735	P -	P -	P 735
Due from BSP	3,597	-	-	3,597
Due from other banks	671	-	-	671
HTM investments	-	-	8	8
Loans and other receivable	-	-	31,560	31,560

Forward

	Level 1		Level 2		Level 3		Total	
Other resources		-		-		35		35
	P	**5,003**	**P**	**-**	**P**	**31,603**	**P**	**36,606**
Liabilities:								
Deposit liabilities	**P**	**-**	**P**	**-**	**P**	**37,882**	**P**	**37,882**
Bills payable		**193**		**-**		**-**		**193**
Other liabilities		**-**		**-**		**2,256**		**2,256**
	P	**193**	**P**	**-**	**P**	**40,138**	**P**	**40,331**

	Level 1		Level 2		Level 3		Total	
December 31, 2012								
Resources:								
Cash and other cash items	P	435	**P**	**-**	**P**	**-**	P	435
Due from BSP		3,073		-		-		3,073
Due from other banks		1,000		-		-		1,000
Loans and other receivable		-		-		20,869		20,869
Other resources		-		-		46,303		
	P	4,508	**P**	**-**	P	67,172	P	25,377
Liabilities:								
Deposit liabilities	**P**	**-**	**P**	**-**	P	26,449	P	26,449
Bills payable		765		-		-		765
Other liabilities		-		-		1,426		1,426
	P	765	**P**	-	P	27,875	P	28,640

For financial assets and financial liabilities, other than HTM investments, with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. HTM investments consist of government securities issued by the Philippine government with fair value determined based on prices quoted in PDEX representing the bid prices at the end of the reporting period.

The fair values of the financial assets and financial liabilities included in Level 2 and Level 3 above which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

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

7.03 Fair Value Measurement for Non-financial Assets

Details of Bank's investment properties and the information about the fair value hierarchy as of December 31, 2013 are shown below.

	Level 1	Level 2	Level 3	Total
Land	P -	**P** -	P 376,208	P 376,208
Building and improvements		-	145,300	145,300
	P -	**P -**	**P 521,508**	**P 521,508**

The fair value of the investment properties of the Bank as of December 31, 2013 and 2012 was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in highest and best use. Based on management's assessment, the best use of the investment properties indicated above is their current use.

The fair value of these investment properties were determined based on the following approaches:

(i) Fair Value Measurement for Land

The Level 3 fair value of land was derived using the observable recent prices of the reference properties which were adjusted for differences in key attributes such as property size, zoning and accessibility.

(ii) Fair Value Measure for Buildings and Improvements

The Level 3 fair value of the buildings and improvements under Investment Properties account was determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, constructions standards, design and lay-out, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

8. SEGMENT REPORTING

The Bank's main operating businesses are organized and managed separately according to the nature of services and products provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of the Bank in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies the Bank's three service lines as primary operating segments.

(a) ***Consumer banking*** – includes auto financing, home financing, and salary or personal loans;

(b) ***Corporate banking*** – includes term loans, working capital credit lines, bills purchase and discounting lines; and,

(c) ***Treasury Operations*** – manages liquidity of the Bank and is a key component in revenue and income generation through its investment and trading activities.

These segments are the basis on which the Bank reports its segment information. Transactions between the segments are on normal commercial terms and conditions.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of the Bank's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

The contribution of these various business activities to the Bank's revenues and income for the years 2013, 2012 and 2011 follow (in millions):

	Corporate Banking	Consumer Banking	Treasury Operations	Total
December 31, 2013				
Statement of Income				
Net interest income	P 1,343	P 126	P 263	P 1,732
Non-interest income	112	-	817	929
Total income (after interest expense)	1,455	126	1,080	2,661
Operating expenses	(1,069)	(46)	(418)	(1,533)
Pre-tax profit	386	80	662	1,128
Net profit	P 344	P 71	P 589	P 1,004
Statement of Financial Position				
Total Resources				
Segment assets	P 31,091	P 1,782	P 14,326	P 46,702
Intangible assets	41	-	-	41
Deferred tax assets	249	-	-	249
	P 31,381	P 1,782	P 14,326	P 47,489
Total Liabilities	P 26,599	P 1,382	P 12,481	P 40,463
Other segment information				
Depreciation and amortization	P 69	P 4	P 33	P 106
Capital expenditures	P 52	P 3	P 24	P 79
December 31, 2012				
Statement of Income				
Net interest income	P 824	P 76	P 172	P 1,072
Non-interest income	172	-	713	885
Total income (after interest expense)	996	76	885	1,957
Operating expenses	(744)	(38)	(463)	(1,247)
Pre-tax profit	252	38	422	710
Net profit	P 232	P 35	P 378	P 655

	Corporate Banking		Consumer Banking		Treasury Operations		Total	
Total Resources								
Segment assets	P	21,035	P	1,129	P	10,748	P	32,912
Intangible assets		-		-		-		-
Deferred tax assets		192		-		-		192
	P	21,227	P	1,129	P	10,748	P	33,104
Total Liabilities	P	16,435	P	941	P	11,341	P	28,695
Other segment information	P	44	P	3	P	31	P	78
Depreciation and amortization	P	71	P	4	P	49	P	284
Capital expenditures								

December 31, 2011

Statement of Income

	Corporate Banking		Consumer Banking		Treasury Operations		Total	
Net interest income	P	627	P	68	P	391	P	1,086
Non-interest income		168		-		595		763
Total Income (after interest expense)		795		68		986		1,849
Operating expenses		(600)		(59)		(343)		(1,002)
Pre-tax profit		195		9		643		847
Net profit		P172	P	7	P	568	P	747

9. CASH AND DUE FROM BSP

This account is composed of the following:

	2013	2012
Cash and other cash items	**P 735,667,668**	P 435,898,545
Due from BSP		
Mandatory reserves	**2,157,209,300**	1,488,180,153
Other than mandatory reserves	**1,440,000,000**	1,585,000,000
	3,597,209,300	3,073,180,153
	P 4,332,876,968	P 3,509,078,698

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

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims.

Due from BSP bears annual effective interest rates ranging from 0% to 2.00% in 2013, 0.00% to 4.07% in 2012, and 0.13% to 0.25%for 2011, except for the amounts within the required reserve as determined by the BSP. Total interest income earned amounted to P43.8 million, P14.5 million and P16.9 million in 2013, 2012 and 2011, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of income.

Under Section 254 of the Manual of Regulations for Banks (MORB), a bank is required to maintain at least 25% of its reserve requirements in the form of deposits with the BSP as among the allowable instruments for reserve cover. Section 254.1 of the MORB further provides that such deposit account with the BSP is not considered as a regular current account as BSP checks for drawings against such deposits shall be limited to (a) settlement of obligations with the BSP, and (b) withdrawals to meet cash requirements.

Starting April 6, 2012, upon effectivity of BSP Circular No. 753 Series of 2012 (the Circular), required reserves of banks shall be kept in the form of deposits placed in the banks' demand deposit accounts with the BSP. As part of the transitory provisions, reserve deposit account that are maintained by banks in the reserve deposit account (RDA) with BSP, which are used in compliance with liquidity reserve requirement as of the effectivity of the Circular was eligible only until the accounts mature. Accordingly, RDA facility was discontinued and BSP no longer accepted new RDA placements from banks. This resulted to the nil balance of RDA as of December 31, 2012 and 2013. Also, cash in vault presented as part of Cash and other cash items, shall be eligible for compliance with the reserve requirement only until the effectivity of the Circular.

10. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	2013	2012
Local banks	**P 406,812,138**	P 796,043,987
Foreign banks	**264,670,805**	204,045,471
	P 671,482,943	P 1,000,089,458

Interest rates on these deposits range from 0.25% to 1.90%, 0.01% to 2.75% and 0.25% to 2.75% per annum in 2013, 2012 and 2011, respectively. Total interest income earned amounted to P1.7 million, P8.0 million and P2.4 million in 2013, 2012 and 2011, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

The breakdown of due from other banks by currency follows:

	2013	2012
US dollars	**P 194,091,704**	P 864,129,447
Philippine pesos	**477,391,239**	135,960,011
	P 671,482,943	P 1,000,089,458

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of held-for-trading government securities with fair value amounting to P917.6 million as of December 31, 2013 (nil in 2012). Interest rates on these investments range from 5.88% to 6.25%, 5.75% to 8.13%, and 6.38% to 8.13% per annum in 2013, 2012 and 2011, respectively. Total interest income earned amounted to P26.6 million, P93.1 million and P19.1 million in 2013, 2012 and 2011, respectively, and are included as part of Interest Income on Investment and Trading Securities in the statements of income. Related unrealized fair value gains or loss, presented as part of Trading Gains - net in the 2011 statement of profit or loss, amounted to a gain of P5.5 million in 2012 and a loss of P19.4 in 2013. Realized trading gains, presented as part of Trading Gains – net in the 2013, 2012 and 2011 statements of income, amounted to P94.2 million, P91.5 million, and P166.8 million, respectively.

12. AVAILABLE-FOR-SALE SECURITIES

This account is mainly composed of the following:

	2013	2012
Government securities	P 6,671,480,703	P 4,895,202,574
Coupon bonds or securities	1,236,569,140	889,334,015
	P 7,908,049,843	P 5,784,536,589

As to currency, this account consists of the following:

	2013	2012
Philippine pesos	P 5,375,155,582	P 4,497,597,109
Foreign currencies	2,532,894,261	1,286,939,480
	P 7,908,049,843	P 5,784,536,589

Changes in the AFS securities are summarized below.

	2013	2012
Balance at beginning of year	P 5,784,536,589	P 5,710,865,521
Additions	18,912,353,899	13,528,772,418
Disposals	(15,233,450,631)	(13,137,527,190)
Fair value gains (losses)	(1,042,090,203)	185,130,710
Foreign currency revaluation	1,519,715,017	(119,891,281)
Amortization of premium	(2,033,014,828)	(382,813,589)
Balance at end of year	P 7,908,049,843	P 5,784,536,589

The reconciliation of unrealized fair value gains (losses) on AFS securities reported under equity is shown below.

	2013	2012	2011
Balance at beginning of year	P 322,575,800	P 521,895,286	P 59,976,876
Changes during the year:			
Fair value gains (losses) during the year	(1,042,090,203)	185,130,710	467,638,969
	2013	2012	2011
Amortization of fair value gains on reclassified AFS securities	(178,689)	(206,786)	(287,165)
Realized fair value gains on AFS securities disposed during the year - net	(323,587,908)	(384,243,410)	(5,433,394)
	(1,365,856,800)	199,319,486	461,918,410
Balance at end of year	(P 1,043,281,000)	P 322,575,800	P 521,895,286

Corporate bonds or securities including debt securities issued by foreign corporations as of December 31, 2013 and 2012 amounted to P257.4 million and P593.2 million, respectively, while those issued by local corporations amounted to P598.8 million and P296.1 million, respectively. AFS securities earn interest of 4.3% to 9.1%, 4.3% to 9.1% and 5.5 to 11.4% per annum in 2013, 2012 and 2011, respectively. Total interest income earned amounted to P345.3 million, P253.9 million, and P528.8 million in 2013, 2012 and 2011, respectively, and are included as part of Interest Income on Investment and Trading Securities in the statements of income. Fair value gains recycled to profit or loss from equity resulting from the sale of AFS securities amounted to a gain of P323.8 million, P384.5 million and P5.7 million in 2013, 2012 and 2011, respectively. These are included as part of Trading Gains – net in the statements of income. Realized trading gains, presented as part of Trading Gains – net in the 2013, 2012 and 2011 statements of income, amounted to P741.9 million, P621.5 million and P422.6 million, respectively.

In 2008, the BSP under Circular No. 628 and pursuant to the amendments to PAS 39 and PFRS 7 allowed the reclassification of financial assets previously classified as AFS securities due to the tainting of HTM investments portfolio back to HTM investments category for prudential reporting purposes which was also approved by the SEC for financial reporting purposes. Accordingly, the Bank reclassified certain financial assets previously classified as financial assets at FVTPL and AFS securities to HTM investments.

The fair value of AFS securities reclassified amounted to P2,130.8 million including fair value loss of P36.1 million as of the date of reclassification on September 11, 2008. The annual effective interest rates of the reclassified securities ranged from 3.85% to 8.23%.

Presented below is the analysis of the fair value of the remaining financial assets reclassified from AFS securities to HTM investments as of December 31, 2012.

Fair value	P	12,560,943
Book value	(	12,112,007)
Fair value gain recognized in equity of the outstanding reclassed securities	P	448,936

The unamortized fair value gains related to debt securities previously reclassified from AFS securities category to HTM investments amounted to P0.2 million in 2012 (nil in 2013). This amount will be amortized over the remaining life of the reclassified investments or recognized to profit or loss upon sale, whichever comes earlier. Portion of fair value gains in comprehensive income amortized to profit or loss amounted to P0.2 million, P0.2 million and P0.3 million for 2013, 2012 and 2011, respectively. There is no impact to total equity had the Bank not made the reclassification in 2008 since the Bank was subsequently tainted on its HTM investments and it reclassified all HTM investments to AFS securities as discussed below.

On September 14, 2009, in light of the improving market conditions, the Bank decided to reclassify the remaining securities reclassified to HTM investments in 2008 as discussed above to AFS securities and subsequently disposed a portion of the same. The carrying value of the HTM investments as of the date of reclassification in 2009 amounted to P2,621.7 million. Of the securities reclassified, P555.1 million was sold during 2009. Due to the Bank's change in intention and inability to hold the HTM investments until their maturity, the Bank is not allowed to classify any of its financial assets to HTM investments until end of 2011.

The fair values of AFS securities have been determined directly by reference to published prices in an active market.

In compliance with current banking regulations relative to the Bank's trust functions, certain AFS securities of the Bank, with face value of P38.0 million and P26.3 million for 2013 and 2012, respectively, are deposited with the BSP (see Note 27).

13. HELD-TO-MATURITY INVESTMENTS

As of December 31, the maturity profile of this account, which pertains mainly to investments in government securities, is presented below (nil in 2012).

	2013
Within one year	P -
Beyond one year	8,816,814
	8,816,814
Amortized premium	160,405
	P 8,656,409

Effective interest rate on these investments is 7.0% per annum in 2013. The Bank's interest income from these investments amounted to P336,165 as shown in the statements of income.

14. LOANS AND OTHER RECEIVABLES

Loans and other receivables consist of the following as of December 31:

	2013	2012
Receivables from customers:		
Loans and discounts	P 26,075,818,474	P 16,289,726,871
Bills purchased	1,028,574,269	742,197,945
Customers' liabilities on acceptances, letters of credit and trust receipts	3,574,029,893	2,650,658,670
	30,678,422,636	19,682,583,486
Unearned discount	(89,802,180)	(50,518,495)
	30,588,620,456	19,632,064,991
Other receivables:		
Unquoted debt securities	1,246,734,856	1,450,850,479
Accrued interest receivable	162,292,562	114,753,768
Sales contracts receivable	124,931,623	94,217,865
Accounts receivable	131,653,338	86,343,332
Deficiency claims receivable - net	61,234,319	43,366,498
Others	778,826	5,169,902
	1,727,625,524	1,794,701,844
	32,316,245,980	21,426,766,835
Allowance for impairment losses	(716,332,647)	(557,614,114)
	P 31,599,913,333	P 20,869,152,721

On various dates in 2002, the Bank purchased P259.0 million face value of the 10-year Poverty Eradication and Alleviation Certificates (PEACe) bonds, in the belief that these were tax-exempt. Said bonds were issued by the Bureau of Treasury (BTr) in 2001 which matured on October 18, 2011. As of December 31, 2013 and 2012, the Accounts receivable includes P36.7 million set up by the Bank for the final tax withheld by the BTr upon maturity of the bonds subject to the resolution of a case filed with the Supreme Court on the matter. Management believes that recoverability of the final tax on PEACe bonds is still probable.

As of December 31, 2013 and 2012, non-performing loans of the Bank amounted to P728.2 million and P607.6 million, respectively, while restructured loans amounted to P120.6 million and P133.5 million, respectively.

A summary of the Bank's maximum exposure to credit risk on loans and other receivables is disclosed in Note 4.03.

The maturity profile of the Bank's loans and discounts follows (amounts in thousands):

	2013	2012
Within one year	P 22,269,479	P 15,620,655
Beyond one year	8,408,944	4,061,928
	P 30,678,423	P 19,682,583

The Bank's concentration of credit as to industry for its loans and discounts portfolio follows (amounts in thousands):

	2013	2012
Wholesale and retail trade	P 10,849,249	P 7,371,658
Manufacturing (various industries)	4,822,980	3,397,525
Real estate, renting and other related activities	4,099,320	2,484,314
Agriculture	443,801	495,271
Others	10,463,073	5,933,815
	P 30,678,423	P 19,682,583

As to security, loans and discounts are classified into the following (amounts in thousands):

	2013	2012
Secured:		
Real estate mortgage	P 8,671,919	P 5,946,384
Deposit hold-out	2,276,562	1,475,719
Chattel mortgage	1,741,714	1,431,387
Others	1,389,941	238,238
Unsecured	16,598,287	10,590,855
	P 30,678,423	P 19,682,583

The changes in the allowance for impairment losses on loans and other receivables are summarized below.

	2013	2012
Balance at beginning of year	P 557,614,114	P 491,656,035
Provision for impairment losses	168,193,789	65,948,079
Transferred to ROPA – net	(9,346,500)	-
Recovery	-	10,000
Balance at end of year	P 716,332,647	P 557,614,114

Of the total loans and discounts of the Bank as of December 31, 2013 and 2012, 88.09% and 88.46%, respectively, are subject to periodic interest repricing.

Annual effective interest rates of loans and discounts range from 2% to 22% in 2013, 2.0% to 22.0% in 2012, and 3.75% to 22.0% in 2011, while the annual effective interest rates of interest-bearing other receivables range from 4.0% to 10.4% in 2013 and 2012 while 4.5% to 10.5% in 2011. Total interest income earned from loans and discounts amounted to P1,627.7 million, P1,203.8 million, and P957.4 million, in 2013, 2012 and 2011, respectively, while total interest income earned from interest-bearing other receivables amounted to P189.9 million, P133.6 million and P133.5 million in 2013, 2012 and 2011, respectively. These are presented as Interest Income on Loans and Other Receivables and SPURRA in the statements of income.

Loans receivables amounting to P0.3 billion and P0.9 billion as of December 31, 2013 and 2012, respectively, are pledged as collaterals to secure borrowings under rediscounting privileges (see Note 19).

Realized trading gains on sale of unquoted debt securities, presented as part of Trading Gains – net in the 2013 and 2011 statements of income, amounted to P0.1 million and P55.0 million, respectively (nil in 2012).

15. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

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

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improve-ments	Total
December 31, 2013						
Cost	P 77,747,556	P 100,487,964	P 257,715,168	P 108,189,288	P 259,172,230	P 803,312,206
Accumulated depreciation and amortization	-	(29,654,000)	(146,850,837)	(48,865,508)	(101,104,229)	(326,474,574)
Net carrying amount	**P 77,747,556**	**P 70,833,964**	**P 110,864,331**	**P 59,323,780**	**P 158,068,001**	**P 476,837,632**
December 31, 2012						
Cost	P 77,747,556	P 95,129,253	P 203,109,351	P 90,288,943	P 203,031,977	P 669,307,080
Accumulated depreciation and amortization	-	(26,939,121)	(118,350,928)	(32,754,613)	(92,767,261)	(270,811,923)
Net carrying amount	P 77,747,556	P 68,190,132	P 84,758,423	P 57,534,330	P 110,264,716	P398,495,157
January 1, 2012						
Cost	P 77,747,556	P 96,962,603	P 168,059,971	P 78,232,912	P 146,190,209	P 567,193,251
Accumulated depreciation and amortization	-	(25,250,296)	(100,557,680)	(31,148,279)	(69,412,884)	(226,369,139)
Net carrying amount	P 77,747,556	P 71,712,307	P 67,502,291	P 47,084,633	P 76,777,325	P 340,824,112

A reconciliation of the carrying amounts at the beginning and end of 2012 and 2011 is shown below.

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improve-ments	Total
Balance at January 1, 2013, net of accumulated depreciation and amortization	P 77,747,556	P 68,190,132	P 84,758,423	P 57,534,330	P 110,264,716	P 398,495,157
Net additions (disposal)	-	5,361,825	56,286,047	21,238,432	84,271,523	167,157,827
Depreciation and amortization charges for the year	-	(2,717,994)	(30,180,138)	(19,448,982)	(36,468,238)	(88,815,352)
Balance at December 31, 2013, net of accumulated depreciation and amortization	**P 77,747,556**	**P 70,833,963**	**P110,864,332**	**P 59,323,780**	**P158,068,001**	**P 476,837,632**
Balance at January 1, 2012, net of accumulated depreciation and amortization	P 77,747,556	P 71,712,307	P 67,502,291	P 47,084,633	P 76,777,325	P 340,824,112
Net additions (disposal)	-	(1,833,351)	40,951,913	26,464,968	57,787,734	123,371,264
Depreciation and amortization charges for the year	-	(1,688,824)	(23,695,781)	(16,015,271)	(24,300,343)	((65,700,219)
Balance at December 31, 2012, net of accumulated depreciation and amortization	P 77,747,556	P 68,190,132	P 84,758,423	P 57,534,330	P110,264,716	P 398,495,157

The BSP requires that investment in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2013 and 2012, the Bank has satisfactorily complied with this requirement.

16. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation, except for a certain property which is leased out to a third party. Rental income from investment properties amounted to P1.4 million, presented as part of Others under Miscellaneous Income in the 2012 statement of income as disclosed in Note 22 (nil in 2013 and 2011).
The related real estate taxes on investment properties amounting to P0.1million for the year ended December 31, 2012 were recognized as a related expense in 2012 (nil in 2013 and 2011).
The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2013 and 2012 are shown below.

	Land	Buildings and Improvements	Total
December 31, 2013			
Cost	P 376,208,090	P 145,300,688	P 521,508,778
Accumulated depreciation	-	(47,103,372)	(47,103,372)
Allowance for impairment	(26,551,861)	(2,192,994)	(28,744,855)
Net carrying amount	**P 349,656,229**	**P 96,004,322**	**P 445,660,551**
December 31, 2012			
Cost	P 460,377,978	P 153,493,072	P 613,871,050
Accumulated depreciation	-	(33,866,275)	(33,866,275)
Allowance for impairment	(20,849,654)	(9,917,701)	(30,767,355)
Net carrying amount	P 439,528,324	P 109,709,096	P 549,237,420
January 1, 2012			
Cost	P 355,357,966	P 93,960,707	P 449,318,673
Accumulated depreciation	-	(27,627,805)	(27,627,805)
Allowance for impairment	(17,647,692)	(6,650,032)	(24,297,724)
Net carrying amount	P 337,710,274	P 59,682,870	P 397,393,144

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2013 and 2012 is shown below.

	Land	Buildings and Improvements	Total
Balance at January 1, 2013, net of accumulated depreciation and impairment	P 439,528,324	P 109,709,096	P 549,237,420
Additions	6,001,700	17,080,495	23,082,195
Disposals	(90,171,588)	(21,611,329)	(111,782,917)
Impairment loss for the year	(9,237,083)	(762,917)	(10,000,000)
Reclassification	3,534,876	8,487,624	12,022,500
Depreciation for the year	-	(16,898,647)	(16,898,647)
Balance at December 31, 2013, net of accumulated depreciation and impairment	**P 349,656,229**	**P 96,004,322**	**P 445,660,551**
Balance at January 1, 2012, net of accumulated depreciation and impairment	P 337,710,274	P 59,682,870	P 397,393,144
Additions	218,036,288	65,482,410	283,518,698
Disposals	(113,016,276)	(799,312)	(113,815,588)
Impairment loss for the year	(3,201,962)	(3,267,669)	(6,469,631)
Depreciation for the year	-	(11,389,203)	(11,389,203)
Balance at December 31, 2012, net of accumulated depreciation and impairment	**P 439,528,324**	**P 109,709,096**	**P 549,237,420**

The fair value of investment properties, based on the latest appraised values at the end of each reporting period, as determined by internal or external appraisers are shown below.

	2013	2012
Land	**P 430,438,449**	P 448,131,330
Building and improvements	**143,896,184**	144,192,918
	P 574,334,633	P 592,324,248

Additions to investment properties include gain on foreclosure amounting to P6.2 million, P4.5 million and P31.4 million for the periods ended December 31, 2013, 2012 and 2011, respectively. These are presented as part of Gain on foreclosure under Miscellaneous Income in the statements of profit or loss (see Note 22).

In 2013, 2012 and 2011, gains on sale of investment properties amounted to P17.2 million, P11.7 million and P9.8 million, respectively, and are presented as part of Gain on sale of properties under Miscellaneous Income in the statements of profit or loss (see Note 22).

17. OTHER RESOURCES

This account consists of the following as of December 31:

	Note	**2013**	2012
Due from head office or branches		**P 79,987,095**	P 342,707,056
Branch licenses		**248,380,000**	246,500,000
Deferred tax assets - net	25	**249,962,966**	199,221,188
Goodwill		**49,878,393**	49,878,393
Foreign currency notes and coins on hand		**32,449,558**	33,269,353
Computer software - net		**50,828,913**	20,662,395
Security deposits		**22,200,210**	19,045,693
Deferred charges		**13,383,687**	17,643,424
Prepaid expenses		**7,461,494**	15,446,701
Sundry debits		**22,240,060**	19,559,130
Stationery and supplies		**13,564,547**	13,839,505
Miscellaneous		**19,577,202**	33,300,628
		809,914,125	1,011,073,464
Allowance for impairment		**(13,393,424)**	(17,643,424)
		P 796,520,701	P 993,430,040

The movement in the allowance for impairment losses for other resources is shown below.

	2013	2012
Balance at beginning of year	**P 17,643,424**	P 18,023,423
Reversal of allowance for other properties sold	**(4,250,000)**	(379,999)
Balance at end of year	**P 13,393,424**	P 17,634,424

17.01 Branch Licenses

The Bank's license application for 26 new branches in 2014 has not yet been approved. This is in line with the Bank's branch expansion program for which it has allocated P200 million of its IPO proceeds to cover the cost of new licenses in the following areas plus processing fees which amounted to a total of P1.88 million : CAMANAVA, Vis-Min Area, Central Luzon and Southern Luzon.

In November 2011, the Monetary Board of BSP approved the request of the Bank to establish 15 branches in selected restricted cities in Metro Manila for a total consideration of P226.5 million which was paid by the Bank to the BSP in January 2012.

17.02 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of Kabalikat Rural Bank, Inc. (KRBI) at the date of merger in 2010, wherein net liabilities assumed amounted to P33,878,393, while total consideration amounted to P49,878,393.

17.03 Others

Deferred charges amounting to P13.4 million and P17.6 million as of December 31, 2013 and 2012, respectively, pertain to prepaid final taxes from prior years that are fully provided with allowance since the Bank has assessed that these prepaid taxes are no longer recoverable.

Other properties held for sale (included under Miscellaneous) are presented net of accumulated depreciation of P3.2 million as of December 31, 2013 and 2012. Depreciation expense recognized in 2012 and 2011 amounted to P0.5 million and P1.6 million, (nil in 2013) respectively, and are presented as part of Depreciation and Amortization in the 2012 and 2011 statements of income. Additions to other properties held for sale in 2012 and 2011, as a result of foreclosure, amounted to P2.7 million and P6.0 million, respectively (nil in 2013). The Bank recognized gains on foreclosure of other properties held for sale amounting to P3.5 million in 2012 and gains on foreclosure of other properties held for sale amounting to P0.6 million in 2011 (nil in 2013). These are presented as part of Gain on foreclosure under Miscellaneous Income in 2012 and 2011 statements of profit or loss (see Notes 22).

In 2012, gains on sale of other properties held for sale amounted to P0.5 million and are presented as part of Gain on sale of properties – net in the 2012 statement of income (see Note 22). In 2011, losses and gains on sale of other properties held for sale amounted to P0.6 million. These are presented as net to Gain on sale of properties in 2012 and 2011 statements of profit or loss (see Notes 16 and 22).

18. DEPOSIT LIABILITIES

The maturity profile of the Bank's deposit liabilities follows:

	2013	2012
Within one year	**P 37,322,908,003**	P 26,127,182,946
Beyond one year	**559,102,741**	321,703,792
	P 37,882,010,744	P 26,448,886,738

The classification of the Bank's deposit liabilities as to currency follows:

	2013	2012
Philippine pesos	**P 34,433,045,569**	P 24,317,283,308
Foreign currencies	**3,448,965,175**	2,131,603,430
	P 37,882,010,744	P 26,448,886,738

Interest rates on deposit liabilities range from 0.25% to 2.50% per annum in 2013, 0.25% to 4.75% per annum in 2012, and 0.25% to 5.0% in 2011.

As mentioned in Note 24, the Bank has deposit liabilities from DOSRI as of December 31, 2013 and 2012.

19. BILLS PAYABLE

This account consists of the following (including the related accrued interest):

	2013	2012
BSP	**P 164,597,199**	P 711,165,218
Other bank	**29,330,602**	54,324,299
	P 193,927,801	P 765,489,517

The maturity profile of bills payable follows:

	2013	2012
Within one year	**P 167,835,440**	P 712,623,267
Beyond one year	**26,092,361**	52,866,250
	P 193,927,801	P 765,489,517

Bills payable are denominated in Philippine pesos with annual interest rates ranging from 3.50% to 5.35%, 3.75% to 5.35%, and 4.0% to 5.35% in 2013, 2012 and 2011, respectively. Total interest expense incurred amounted to P8.6 million, P25.9 million and P36.2 million in 2013, 2012 and 2011, respectively, and these are presented as Interest Expense on Bills Payable in the statements of income. Bills payable are collateralized by certain loans from customers (see Note 13).

20. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Notes	2013	2012 (As Restated - See Note 2)
Bills purchased		**P 1,018,007,224**	P 731,630,900
Accounts payable		**435,828,944**	143,442,056
Outstanding acceptances		**225,319,929**	444,449,958
Accrued expenses	28.01	**130,463,975**	66,445,781
Manager's checks		**147,111,827**	62,760,689
Post-employment benefit obligation	23.02	**44,587,997**	40,326,234
Taxes withheld		**36,179,706**	-
Others		**17,712,165**	13,999,073
		P 2,055,211,767	P 1,503,054,691

Bills purchased pertain to availments of the bills purchase line which are settled on the third day from the transaction date.

Outstanding acceptances pertain to the liabilities recognized by the Bank in its undertaking arising from letters of credit extended to its borrowers.

Accounts payable include amounts which the Bank owes to its suppliers and advance payments received from its customers.

Accrued expenses include accruals on employee benefits, utilities, janitorial and security services fees and others.

21. EQUITY

21.01 Capital Stock

Capital stock as of December 31 consists of:

	Number of Shares		Amount	
	2013	2012	**2013**	2012
Preferred shares – P10 par value				
Authorized – 130,000,000 shares				
Issued and subscribed				
Balance at beginning of year	**6,200,000**	6,200,000	**P 620,000,000**	P 620,000,000
Change in par value	**-**	55,800,000	**-**	-
Balance at end of year	**6,200,000**	62,000,000	**620,000,000**	620,000,000
Subscriptions receivable				
Balance at beginning of year			**-**	(375,000,000)
Collections during the year			**-**	375,000,000
Balance at end of year			**-**	-
			P 620,000,000	P 620,000,000
Common shares – P10 par value in 2013 and P100 par value in 2012				
Authorized – 870,000,000 shares in 2013 and 17,000,000 shares in 2012				
Issued and subscribed				
Balance at the beginning of the year	**242,000,000**	4,200,000	**P 2,420,000,000**	P 420,000,000
Issued during the year	**101,333,400**	-	**1,013,334,000**	
Stock dividends	**-**	20,000,000	**-**	2,000,000,000
Change in par value	**-**	217,800,000	**-**	-
	343,333,400	242,000,000	**P 3,433,334,000**	P 2,420,000,000

The Bank's preferred shares are nonvoting, nonconvertible, and are redeemable at the option of the Bank. These shares are entitled to non-cumulative dividend of 8% per annum. The dividends for preferred shares are declared upon the sole discretion of the Bank's BOD.

On February 19, 2013, the Bank issued additional common shares of 101,333,400 at P31.50 per share.

In a joint special meeting held on July 27, 2007, the Bank's BOD and stockholders approved the increase of the Bank's authorized capital stock from P1 billion, divided into seven million common shares and three million preferred shares to P3 billion, divided into 17 million common shares and 13 million preferred shares, both with par value of P100 per share. In connection with this, on June 19, 2009, the Bank received cash infusion amounting to P125 million from three subscribers representing 25% of the total subscription price of P500 million representing five million preferred shares to be taken out from the increase in authorized capital stock. The Bank's application for increase in authorized capital stock was approved by the SEC on September 17, 2009.

On July 16, 2012, the BOD and the stockholders representing at least two-thirds of the issued and outstanding capital stock approved the following amendments, among others, to the articles of incorporation of the Bank: (i) increase in the authorized capital stock to P10 billion divided into 870 million common shares with par value of P10 per share and 130 million preferred shares with par value of P10 per share from P3 billion authorized capital stock divided into 17 million common shares with par value of P100 per share and 13 million preferred shares with par value of P100 per share; and, (ii) change in the features of preferred shares from redeemable and non-convertible to redeemable and convertible to common shares at par value at the option of the Bank. On November 27, 2012, the BOD approved the revocation of the July 16, 2012 approval to change the features of preferred shares to redeemable and convertible to common at par value. The amended articles of incorporation (excluding the change of the features of preferred shares to redeemable and convertible to common shares) were approved by the BSP and SEC on October 16, 2012 and November 16, 2012, respectively.

21.02 Dividends

Also on July 16, 2012, the stockholders representing at least two-thirds of the issued and outstanding capital stock, approved the declaration of cash dividends amounting to P100.35 million for all issued and outstanding preferred shares and stock dividends totaling 20 million common shares amounting to P2 billion for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2011. The dividend distribution was approved by the BSP on October 17, 2012.

On February 18, 2011, the Bank offered its 101.3 million unissued common shares by way of IPO at P31.50 per share resulting in the recognition of additional paid-in capital of P1.9 billion, net of transactions costs (see Note 1).

As of December 31, 2013, the Bank has 100 holders of its equity securities listed in the PSE and its share price closed at P23.40. The Bank has 343.3 million common shares traded in the PSE as of December 31, 2013.

21.03 Appropriated Surplus

On August 16, 2003, the BOD approved the establishment of a sinking fund for the exclusive purpose of the redemption of redeemable preferred shares should the Bank opt to redeem the shares. As of December 31, 2013 and 2012, the sinking fund for the redemption of redeemable preferred shares is yet to be established.

In 2012 and 2011, additional appropriations of surplus amounting to P0.6 million and P0.3 million (nil in 2013), respectively, pertain to the portion of the Bank's income from trust operations set-up in compliance with BSP regulations (see Note 27).

21.04 Paid-in Capital from IPO

As mentioned above, the Bank's common shares were listed at the PSE in February 2013. Total proceeds received from the IPO amounted to P3.008 billion of which P2.0 billion is treated as part of Paid-in Capital being the amount paid in excess of the common stocks' par value. Total share issuance costs deducted from APIC amounted to P180.2 million. Offer expenses from the IPO amounting to P4.9 million were presented as part of Other Operating Expenses in the 2013 statements of profit or loss.

21.05 Restatement of Prior Years Financial Statements

Certain statement financial position and statement of income accounts in 2012 and 2011 were restated, as a result of the adoption of the PAS 19 (Revised).

22. MISCELLANEOUS INCOME AND EXPENSES

22.01 Miscellaneous Income

This account is composed of the following:

	Notes	**2013**	2012	2011
Gain on sale of properties – net	16, 17	**P 17,233,626**	P 12,226,663	P 9,199,762
Trust fees	27	**8,907,035**	5,959,343	4,102,522
Gain on foreclosure - net	16, 17	**6,239,465**	1,018,455	32,028,960
Reversal of various accruals		**-**	-	15,780,874
Income from write-off of long outstanding payable		**-**	-	11,499,716
Consultancy fee		**-**	52,353,685	-
Others		**5,848,379**	32,657,922	29,473,098
		P 38,228,379	P 104,216,068	P 102,084,932

Consultancy fee pertains to a one-time fee received by the Bank for acting as a financial advisor for the settlement of a third party's obligation to another counterparty.

Others include, among others, commitment, processing and handling fees in relation to services rendered by the Bank.

22.02 Miscellaneous Expense

This account is composed of the following:

	2013	2012	2011
Occupancy costs	**P 172,761,117**	P 163,561,196	P 124,984,179
Transportation and travel	**74,778,937**	71,188,074	55,647,650
Communication	**16,025,157**	13,987,594	11,683,582
Banking fees	**13,852,700**	8,663,057	7,021,324
Amortization of software licenses	**11,391,881**	6,956,079	5,824,407
Litigation on asset acquired	**9,323,605**	26,475,997	27,891,414
Advertising and publicity	**6,858,379**	12,076,687	3,582,540
Information technology	**2,563,313**	626,073	-
Donations and contributions	**2,280,172**	202,503	2,081,174
Membership dues	**1,249,200**	1,305,265	1,272,487
Loss on sale of properties – net	**-**	-	11,838,992
Others	**34,463,075**	66,924,858	50,392,899
	P 345,547,536	P 371,967,383	P 292,124,103

Others include, among others, occupancy, transportation and travel, supplies, brokerage fees, commissions, appraisal and processing fees incurred by the Bank.

23. EMPLOYEE BENEFITS

23.01 Salaries and Employee Benefits Expense

Expenses recognized for salaries and other employee benefits are broken down below.

	2013	2012 (As Restated See Note 2)	2011 (As Restated See Note 2)
Salaries and wages	**P 227,880,927**	P 185,125,618	P 145,979,695
Bonuses	**71,319,899**	59,666,530	46,904,563
Post-employment defined benefit plan	**14,583,891**	10,531,181	6,584,400
Social security costs	**12,969,290**	10,722,110	8,937,407
Short-term medical benefits	**142,363**	246,589	607,817
Other short-term benefits	**65,443,287**	54,501,366	46,249,395
	P 392,749,657	P 320,793,394	P 255,263,277

23.02 Post-employment Benefit

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Bank. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60. Normal retirement benefit is an amount equivalent to 150% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2013 including the comparative year which has been restated in line with the adoption of PAS 19 (Revised), see Note 2.2(a)(ii).

The amounts of post-employment defined benefit obligation recognized in the statements of financial position are determined as follows:

	2013	2012 (As Restated - see Note 2)
Present value of the DBO	**P 118,207,371**	P 89,955,851
Fair value of plan assets	**(73,619,374)**	(49,629,617)
	P 44,587,997	P 40,326,234

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

	2013	2012 (As Restated - see Note 2)
Balance at beginning of year	**P 89,955,851**	P 65,437,303
Current service cost	**14,583,891**	10,531,181
Interest expense	**5,298,400**	4,214,162
Remeasurements:		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	**(1,810,936)**	5,688,969
Experience adjustments	**13,611,233**	4,590,916
Benefits paid	**(3,431,068)**	(506,680)
Balance at end of year	**P 118,207,371**	P 89,955,851

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

	2013	2012 (As Restated - see Note 2)
Balance at beginning of year	**P 49,629,617**	P 44,927,195
Interest income	**3,559,548**	2,917,117
Return on plan assets (excluding amounts included in net interest	**(1,178,057)**	1,045,992
Contributions to the plan	**25,039,334**	1,245,993
Benefits paid	**(3,431,068)**	(506,680)
Balance at end of year	**P 73,619,374**	P 49,629,617

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

	2013	2012 (As Restated - see Note 2)
Cash and cash equivalents	**P 25,227,997**	P 10,867,555
Accrued interests	**1,482,149**	1,449,904
Government bonds	**46,913,959**	37,314,111
	73,624,104	49,631,570
Accountabilities	**(4,730)**	(1,954)
	P 73,619,374	P 49,629,617

The fair values of the above debt securities are determined based on quoted market prices in active markets.

The plan assets incurred a negative return of P1.2 million in 2013 and earned return of P1.0 million in 2012.

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

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

	2013	2012 (As Restated - see Note 2)
Reported in profit or loss:		
Current service cost	**P 14,583,891**	P 10,531,181
Net interest expense	**1,738,852**	1,297,045
	P 16,322,743	P 11,828,226
Reported in other comprehensive income:		
Actuarial gains (losses) arising from changes in		
Financial	**P 1,810,936**	P 5,688,969
Experience adjustments	**(13,611,233)**	(4,590,916)
Return on plan assets (excluding amounts included in net interest expense)	**(1,178,297)**	(1,045,992)
	(P 12,978,354)	(P 9,233,893)

Current service cost are presented as part Salaries and Other Employee Benefits under the caption Other Expense while net interest expense is presented as Interest Expense – Others in the statements of income.

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

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

	2013	2012
Discount rates	**5.0%**	5.9%
Expected rate of salary increases	**5.0%**	5.0%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 27 for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon bond government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(d) Investment and Interest Risks

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents and debt securities. Due to the long-term nature of the plan obligation, a level of continuing debt investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(e) Longevity and Salary Risks

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(f) Other Information

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

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2013:

		Impact on Post-employment Benefit Obligation		
		Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	2.65%	P3,126,427	P17,063,686	P13,937,259
Salary rate	2.16%	P2,555,009	P15,626,665	P13,071,656

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

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

(g) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Bank through its Retirement Plan Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2013 and 2012 consists of debt securities, although the Bank also invests in cash and cash equivalents. The Bank believes that equities offer the best returns over the long term with an acceptable level of risk. There has been no change in the Bank's strategies to manage its risks from previous periods.

(h) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P44.6 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 20 years' time when a significant number of employees is expected to retire.

The maturity profile of undiscounted expected benefit payments from the plan for the next 10 years follows:

Within one year	P	15,212,023
More than one year to five years		38,343,300
More than five years to ten years		2,162,192,180
	P	**2,215,747,503**

The weighted average duration of the defined benefit obligation at the end of the reporting period is 32.75 years.

24. RELATED PARTY TRANSACTIONS

The Bank's related parties include entities under common ownership, key management and others as described below.

The following are the Bank's transactions with related parties:

		2013		2012	
Related Party Category	**Note**	**Amount of Transaction**	**Outstanding Balance**	**Amount of Transaction**	**Outstanding Balance**
Entities under common ownership					
Deposit liabilities	24.01	P **2,516,345**	P 5,661,978	P 2,516,345,619	P 5,661,977,764
Loans	24.02	**1,214,795,439**	1,996,849,225	547,053,786	782,053,786
Interest income on loans	24.02	**11,920**	2,046,583	11,920,599	2,046,583
Retirement fund	24.03	**739,313**	17,808,558	739,313	17,808,558
Key management and others					
Compensation	24.04	**67,106,365**	-	67,106,365	-
Loans	24.02	**5,421,877**	18,787,338	5,421,877	18,787,338
Interest income on loans	24.02	**1,327,033**	92,608	1,327,033	92,608
Sale of investment properties	24.02	**300.000**	-	300,000	-

24.01 DOSRI Deposits

The total balance of DOSRI deposits are inclusive of the corresponding related accrued interest included in the financial statements as of December 31, 2013 and 2012.

24.02 DOSRI LOANS

a. The Bank has loan transactions with its officers and employees. The General Banking Act of the BSP provides that in aggregate, loans to DOSRI generally should not exceed the Bank's total equity or 15% of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank.
In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Bank, whichever is lower. As of December 31, 2013 and 2012, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

Relative to the DOSRI loans, the following additional information is also presented:

	2013	2012
Total outstanding DOSRI loans	P 1,214,795,439	P 800,841,124
% to total loan portfolio	4.0%	4.1%
% of unsecured DOSRI loans to total DOSRI loans	0.7%	2.3%

The details of total outstanding DOSRI Loans for the year ended December 31, 2013 are shown below.

Commercial loans	P 1,191,009,750
Key management personnel	23,048,927
Other related party	736,762
	P 1,214,795,439

The Bank has no past due DOSRI loans as of December 31, 2013 and 2012. As of December 31, 2013, the Bank has an approved line of credit to certain related parties totaling P230.0 million of which all was used to guarantee the obligation of the respective related parties to other creditors up to the extent of the unused line of credit.

The Bank has no unsecured loan that is subject to 30% aggregate DOSRI ceiling. Unsecured DOSRI loans to the officers of the Bank, which are subject to the 5% ceiling for loans under fringe benefits program under MORB, amounted to P8.4 million and P18.1 million, as of December 31, 2013 and 2012, respectively.

b. The BOD approved the sale of investment properties on May 21, 2012 for an amount equal to its carrying value of P0.3 million, and on June 2, 2011 with a carrying value of P0.4 million for P0.3 million. There are no outstanding receivables from these DOSRI sale transactions as of December 31, 2013 and 2012.

24.03 Transactions with Retirement Fund

The Bank's retirement fund has no transactions direct and indirect with the Bank or its employees as of December 31, 2013, except for the contributions and benefits paid out of the plan to the Bank's employees as disclosed in Note 23.

24.04 Key Management Personnel Compensation

Salaries and short-term benefits received by key management personnel are summarized below.

	2013	2012	2011
Salaries and wages	**P 56,277,678**	P 45,629,360	P 35,588,847
Bonuses	**14,044,419**	11,610,623	8,871,712
Other short-term benefits	**1,256,000**	6,292,113	4,855,279
Post-employment defined benefit	**4,666,559**	2,551,469	1,343,903
Social security costs	**1.339,335**	1,022,800	551,540
	P 72,917,432	P 67,106,365	P 51,211,281

25. TAXES

The components of tax expense for the years ended December 31, 2013, 2012 and 2011 follow:

	2013	2012 (As Restated See Note 2)	2011 (As Restated See Note 2)
Reported in profit or loss			
Current tax expense:			
Final tax on income at 20%, 10% and 7.5%	**P 101,023,942**	P 73,261,960	P 100,614,810
Minimum corporate income tax (MCIT) at 2%	**-**	15,172,799	6,374,842
Regular corporate income tax (RCIT) at 30%	**69,551,356**	856,207	5,467,061
	170,575,298	89,290,966	112,456,713
Deferred tax income relating to origination and reversal of temporary differences	**(46,848,274)**	(32,728,798)	(12,901,306)
	P 123,727,024	P 56,562,168	P 99,555,407
Reported in other comprehensive income			
Deferred tax income relating to origination and reversal of temporary diffrences	**P 3,893,506**	P 2,770,168	P 5,322,496

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of income follows:

	2013	2012	2011
Tax on pretax profit at 30%	**P 338,332,091**	P 213,345,519	P 253,954,681
Adjustment for income subjected to lower tax rates	**(31,492,317)**	(23,283,941)	(62,119,270)
Tax effects of:			
Non-taxable income	**(299,616,725)**	(227,439,423)	(208,034,794)
Non-deductible expenses	**116,503,975**	93,940,013	115,754,790
Tax expense reported in the statements of income	**P 123,727,024**	P 56,562,168	P 99,555,407

As of December 31, 2013 and 201, the Bank has unrecognized deferred tax assets amounting to P11.9 million which pertain to certain allowance for impairment losses absorbed from KRBI upon merger amounting to P39.6 million.
The Bank is subject to MCIT computed at 2% of gross income as defined under the tax regulations or RCIT, whichever is higher. The breakdown of the Bank's MCIT which can be applied against RCIT follows:

Year	Original Amount	Applied in Current Year	Remaining Balance	Valid Until
2012	P 15,172,799	P 15,172,799	P -	2015
2011	6,374,842	6,374,842	-	2014
2010	11,394,468	11,394,468	-	2013
	P 32,942,109	P 32,942,109	P -	

In 2013, the Company utilized its entire outstanding MCIT totaling P32,942,109.

For the years ended December 31, 2013 and 2012, the Bank opted to claim itemized deductions.

The net deferred tax assets as of December 31, 2013 and 2012 (included as part of Other Resources account – (see Note 17) relate to the following:

	Statements of Financial Position		Profit or Loss		Other Comprehensive Income	
	2013	2012	2013	2012	2013	2012
Deferred tax assets:						
Allowance for impairment losses	**P 220,368,273**	P 169,910,136	(P 50,458,137)	(P 21,725,313)	P-	P
Excess MCIT over RCIT	**-**	32,942,109	32,942,109	(15,172,800)	-	-
Accumulated depreciation of investment properties and other properties held for sale	**15,080,174**	11,109,045	(3,971,129)	(1,902,812)	-	-
Post-employment benefit obligation	**13,376,399**	12,097,870	2,6149,76	(3,174,669)	(3,893,506)	(2,770,168)
Unamortized past service cost	**5,874,611**	3,558,457	(2,316,154)	506,814	-	-
Accrued bonus and leave conversion	**10,212,453**	(694,187)	(10,906,640)	13,773,017	-	-
Deferred tax liabilities:						
Gain on initial exchange of investment properties	**(14,948,943)**	(29,702,242)	(14,753,299)	(5,033,035)	-	-
Net Deferred Tax Assets	**P 249,962,967**	P 199,221,188	(P 46,848,274)	(P 32,728,798)	(P 3,893,506)	(P 2,770,168)

26. COMMITMENTS AND CONTINGENT LIABILITIES

The following are the significant commitments and contingencies involving the Bank:

a. The Bank leases the premises occupied by its branch offices for periods ranging from 5 to 20 years, renewable upon mutual agreement between the Bank and the lessors. Rent expense amounted to P78.8 million, P60.1 million and P47.0 million in 2013, 2012 and 2011, respectively, and are included as part of Others under Miscellaneous Expenses in the statements of income.

   As of December 31, 2013 and 2012, future minimum rental payments required by the lease contracts are as follows:

	2013	2012	2011
Within one year	**P 69,432,324**	P 54,608,414	P 40,311,242
After one year but not more than five years	**179,362,736**	133,513,317	128,913,938
More than five years	**21,402,649**	26,165,256	24,880,204
	P 270,197,709	P 214,286,987	P 194,105,384

b. In the normal course of the Bank's operations, the Bank has various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the financial statements.

c. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

The following is a summary of the Bank's commitments and contingent accounts as of December 31:

	2013	2012
Investment management accounts	**P 6,400,701,696**	P 1,462,371,014
Outstanding letters of credit	**914,864,302**	364,819,500
Trust and other fiduciary accounts	**387,242,450**	102,541,928
Items held for safekeeping	**2,975,878**	19,367
Outward bills for collection	**109,225**	5,059,810
Items held as collateral	**32,997**	6,627
Unit investment trust fund	**6,796**	14,851,696
Other contingent accounts	**375,299,744**	394,551,132
	P 8,185,502,554	P 2,346,409,977

As of December 31, 2013, the Bank's management believes that losses, if any, from the above commitments and contingencies will not have a material effect on the Bank's financial statements.

27. TRUST OPERATIONS

The following securities and other properties held by the Bank in fiduciary or agency capacity (for a fee) for its customers are not included in the statements of financial position since these are not resources of the Bank:

	2013	2012
Due from BSP	**P -**	P 192,000,000
Due from banks	**784,379,130**	29,425,392
Loans and other receivables	**543,551,970**	541,888,348
Investment securities	**5,564,282,511**	816,450,898
	P 6,892,213,611	P 1,579,764,638

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions:

(a) Government bonds owned by the Bank with face value of P38.0 million and P26.3 million as of December 31, 2013 and 2012, respectively, are deposited with the BSP (see Note 12); and,

(b) 10% of the trust income is transferred to appropriated surplus. This transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock. As of December 31, 2013 and 2012, the reserve for trust functions amounted to P0.9 million and is presented as Appropriated Surplus in the Bank's statements of changes in equity.

Income from trust operations, shown as part of Miscellaneous Income, amounted to P8.9 million, P6 million and P4.1 million for the years ended December 31, 2013, 2012 and 2011, respectively, in the statements of profit or loss (see Note 22).

27.1.1. Selected Financial Performance Indicators

a. The following are some of the financial performance indicators of the Bank:

	2013	2012 (As Restated- See Note 2)	2011 (As Restated- See Note 2)
Return on average capital			
Net profit / Average total capital accounts	**20.6%**	9.7%	27.7%
Return on average resources			
Net profit / Average total resources	**2.5%**	2.2%	3.1%
Net interest margin			
Net interest income / Average interest earning resources	**4.6%**	3.9%	4.7%
Capital to risk assets ratio			
Total capital / Risk resources	**16%**	14%	15%
Liquidity ratio			
Current assets / Current liabilities	**1.2**	0.8	1.1
Debt-to-equity ratio			
Liabilities / Equity	**5.7**	6.5	6.1
Asset-to-equity ratio			
Asset / Equity	**6.7**	7.5	7.1
Interest rate coverage ratio			
Earnings before interests and taxes / Interest expense	**3.3**	2.1	2.5

b. Secured Liabilities and Resources Pledged as Security

As of December 31, 2013 and 2012, bills payable are the only secured liabilities (see Note 19). Additionally, certain AFS securities as of December 31, 2011 (nil in 2012) were assigned to another bank for the faithful observance of the Bank's obligation in its undertaking arising from letters of credit extended to its borrowers (see Note 12).

28. EARNINGS PER SHARE

28.01 Basic Earnings Per Share

Basic earnings per share are computed as follows:

	2013	2012 (As Restated - See Note 2)	2011 (As Restated - See Note 2)
Net profit	**P 1,004,046,612**	P 654,589,562	P 746,960,198
Dividends on preferred shares	-	(100,350,000)	-
Net profit attributable to common shareholders	**1,004,046,612**	554,239,562	746,960,198

Forward

	2013	2012	2011
Divided by the weighted average number of outstanding common shares	**330,666,725**	242,000,000	242,000,000
Basic earnings per share	**P 3.04**	P 2.29	P 3.09

28.02 Diluted Earnings Per Share

Diluted earnings per share are computed as follows:

	2013	2012	2011
Net profit	**P 1,004,046,612**	P 654,589,562	P 746,960,198
Dividends on preferred shares	-	(100,350,000)	-
Net profit attributable to common shareholders	**1,127,773,635**	610,801,730	846,515,605
Divided by the weighted average number of outstanding common shares	**330,666,725**	242,000,000	242,000,000
Diluted earnings per share	**P 3.04**	P 2.29	P 3.09

The 2012 and 2011 earnings per share of the Bank were restated due to adoption of PAS 19 to account for the stock dividends declared and change in par value in 2012. These are considered as a bonus issue and stock split, respectively, under PAS 33, Earnings Per Share, which require stock dividends issued and change in par value to be recognized as if it occurred at the beginning of 2010, the earliest period presented for earnings per share computation

29. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under FRSP for banks.

29.01 Requirements Under Revenue Regulation (RR) 15-2010

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

(a) Gross Receipts Tax (GRT)

In lieu of the value-added tax, the Bank is subject to the GRT, pursuant to Sections 121 and 122 of the Tax Code which is imposed on banks, non-banks financial intermediaries and finance companies.

In 2013, the Bank reported total GRT amounting to P173,235,222 shown under Taxes and Licenses account [see Note 29.01 (c)]. GRT paid during the year amounted to P162,462,539, exclusive of December 2013 GRT paid during 2014. Total GRT payable as of December 31, 2013 amounted to P10,772,783, included as part of Accrued expenses under Accrued Expenses and Other Liabilities account in the 2013 statement of financial position (see Note 20).

GRT is levied on the Bank's lending income, which includes interest, commission and discounts arising from instruments with maturity of five years or less and other income. The tax is computed at the prescribed rates of either 7%, 5% or 1% of the related income *(b) Documentary Stamp Tax (DST)*

The Bank is enrolled under the Electronic Documentary Stamp Tax (e-DST) System starting July 2010. In 2013, DST remittance thru e-DST amounted to P178,793,042, while DST on deposits for remittance amounts to P58,513,447. In general, the Bank's DST transactions arise from the execution of debt instruments, lease contracts and deposit liabilities.

DST on loan documents and letters of credit in 2013 amounting to P120,279,595 were charged to borrowers and these were properly remitted by the Bank.

(c) Taxes and Licenses

The details of Taxes and Licenses account for the year ended December 31, 2013 follow:

	Note		
Gross receipts tax	29.01 (a)	P	173,235,222
Documentary stamp tax			79,771,724
Business tax			8,711,984
Real property tax			2,135,807
Miscellaneous			1,392,540
		P	265,247,277

Taxes and licenses allocated to tax exempt income and income subject to final tax and special rate totaling P54,305,117 were excluded from the itemized deductions for purposes of income tax computation [see Note 25].

(d) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2013 are shown below.

Final	P	97,505,194
Compensation and benefits		47,902,377
Expanded		35,982,870
	P	9,216,403

(e) Deficiency Tax Assessments and Tax Cases

As of December 31, 2013, the Bank did not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside the BIR in any of the open taxable years.

(f) Other Required tax Information

The Bank did not have any transaction in 2013, which is subject to excise tax, customs duties and tariff fees.

29.02 Requirements Under RR 19-2011

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

The Bank's Regular Banking Unit (RBU) is taxed separately from FCDU. The amounts of taxable revenues and income, and deductible costs and expenses of RBU of the Bank are presented below. The amounts of taxable revenues and income, and deductible costs and expenses of the FCDU are presented in the notes to the separate financial statements of the FCDU for which corresponding income tax return is separately filed with the BIR.

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

(a) Taxable Revenues

The Bank's taxable revenues for the year ended December 31, 2013 at the regular tax rate pertain to interest income amounting to P1,784,168,324.

(b) Deductible Costs of Services

Deductible costs of services for the year ended December 31, 2013 at the regular tax rate comprise the following:

Interest expense	P	347,798,417
Salaries and wages		208,442,844
Insurance		62,413,185
Supervision/examination fees		12,753,568
	P	631,408,014

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2013 which are subject to regular tax rate are shown below.

Bank commissions and service charges	P	71,781,891
Gain on foreclosure of property		49,177,664
Others		13,416,004
	P	134,375,559

(d) Itemized Deductions

The amounts of itemized deductions for the year ended December 31, 2013 subject to regular tax rate follow:

Taxes and licenses	P	210,942,160
Employee benefits		116,160,039
IPO cost		171,588,494
Management and other professional fees		95,337,712
Depreciation and amortization		65,375,297
Representation and entertainment		20,093,025
Losses		12,327,751
Miscellaneous		257,541,949
	P	949,366,427

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