IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the Offering Circular following this page. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to it from time to time, each time you receive any information from the Issuer, the Lead Manager, the Selling Agents, the Limited Selling Agents and the Market Maker (as such terms are defined in the attached Offering Circular).

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICITON WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT, BE REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION (THE "SEC").

Confirmation of your representation: This Offering Circular is being sent at your request and by accepting the email and accessing this Offering Circular, you shall have confirmed that (1) you are a person to whom it is lawful to deliver, or to grant access to the attached Offering Circular through electronic means, and (2) that you consent to the delivery of, or your being granted access to this document through electronic means.

This document has been made available to you in electronic form. You are reminded that documents made available to you through this medium may have been altered or changed during the process of electronic transmission or access and consequently the Issuer, the Lead Manager, the Selling Agents and the Market Maker and their respective affiliates accept no liability or responsibility whatsoever in respect of any difference between this electronic version of the Offering Circular made available to you and the hard copy version.

You are reminded this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered or made available in accordance with the laws of the jurisdiction in which you are located.

You are responsible for protecting against viruses and other destructive items. Your use of this electronic document is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

PHILIPPINE SAVINGS BANK

(A banking corporation organized and existing under Philippine Laws)

₱3,000,000,000 5.50% Unsecured Subordinated Notes Qualifying as Tier 2 Capital Due August 23, 2024
Callable in August 23, 2019
Issue Price 100%

Philippine Savings Bank ("PSBank" or the "Bank" or the "Issuer") is offering ₱3,000,000,000 worth of Unsecured Subordinated Notes eligible as Tier 2 Capital due August 23, 2024, callable in 2019 (the "Notes") pursuant to the authority granted by the *Bangko Sentral ng Pilipinas* ("BSP") to the Issuer on April 14, 2014. The Notes will qualify as Tier 2 capital and will be issued pursuant to BSP Circular No. 781 (Series of 2013) on the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel III, BSP Circular No. 826 (Series of 2014) on risk disclosure requirements for the loss absorption features of capital instruments, Sections X119 of the Manual of Regulations for Banks ("MORB"), and other related circulars and issuances of the BSP (the "Regulations").

The Notes will bear interest at the rate of 5.50% per annum from and including May 23, 2014 to but excluding August 23, 2024. Unless the Notes are earlier redeemed upon at least 30 days' notice prior to August 23, 2019 (the "Call Option Date"), the interest shall be payable quarterly in arrears at the end of each Interest Period on August 23, November 23, February 23 and May 23 of each year, commencing on August 23, 2014 until the Maturity Date.

Unless previously redeemed, the Notes will be redeemed at their principal amount on Maturity Date or August 23, 2024. Subject to the satisfaction of certain regulatory approval requirements, the Issuer may redeem the Notes in whole and not only in part at a redemption price equal to 100% of the principal amount together with accrued and unpaid interest upon at least 30 days' notice prior to the Call Option Date. (See Terms and Conditions of the Notes – Call Option Date.)

The Notes will constitute direct, unconditional, and unsecured obligations of the Issuer. The Notes will be subordinated in right of payment of principal and interest to all depositors and other creditors of the Issuer and will rank *pari passu* and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of the Issuer, including holders of preferred shares, if any. (See Terms and Conditions of the Notes – Status of Notes.)

The Notes have a loss absorption feature, which means the Notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Event, subject to certain conditions as set out in "Terms and Conditions of the Notes – Loss Absorption Due to Non-Viability Event; Non-Viability Write-Down", when the Issuer or Metropolitan Bank & Trust Company, the parent company of the Issuer, is considered non-viable as determined by the BSP. Non-Viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or the inability of the Issuer or Metropolitan Bank & Trust Company to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Trigger Event shall be deemed to have occurred if the BSP notifies the Issuer in writing that it has determined that a: (i) Write-Down (as defined in "Terms and Conditions of the Notes") of the Notes and other capital instruments of the Issuer is necessary because, without such Write-Down, the Issuer would become non-viable, (ii) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Issuer would become non-viable, or (iii) Write-Down of the Notes and other capital instruments of the Issuer is necessary because, as a result of the closure of the Issuer, the Issuer has become non-viable.

THE NOTES ARE NOT DEPOSITS AND ARE NOT INSURED BY THE PHILIPPINE DEPOSIT INSURANCE CORPORATION. THE NOTES ARE SUBORDINATED TO THE CLAIMS OF DEPOSITORS AND ORDINARY CREDITORS. THE LOANS ARE UNSECURED AND NOT COVERED BY THE GUARANTY OF THE ISSUER NOR OF ITS SUBSIDIARIES AND AFFILIATES. THE NOTES ARE INELIGIBLE AS COLLATERAL FOR A LOAN GRANTED BY THE ISSUER, ITS SUBSIDIARIES AND AFFILIATES.

The Notes will be issued in scripless form and in minimum denominations of ₱500,000 and integral multiples of ₱100,000 thereafter and will be registered and lodged with the Registrar in the name of the Holders. The Notes will be represented by a Master Note deposited with the Public Trustee (with certified true copy to the Registrar). The Electronic Registry Book (the "Registry") shall serve as the best evidence of ownership with respect to the Notes. However, a written advice will be issued by the Registrar to the Holders to confirm the registration of Notes in their name in the Registry, in accordance with the regulations of the BSP ("Registry Confirmations"). Once registered and lodged, the Notes will be eligible for transfer or assignment through a Market Maker by electronic book-entry transfers in the Registry, and any sale, transfer, or conveyance of the Notes shall be coursed through a Market Maker. In the event that the Notes are listed in a fixed income exchange, the services of the Market Maker shall cease and secondary trading on the Notes would henceforth be conducted in such fixed income exchange in accordance with the rules and regulations of such fixed income exchange.

The Notes have been given a PRS Aaa rating by PhilRatings. A rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating agency concerned. INVESTING IN THE NOTES INVOLVES CERTAIN RISKS. (SEE "INVESTMENT CONSIDERATIONS" FOR A DISCUSSION OF FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES).

Lead Manager and Selling Agent

ING

Selling Agent and Market Maker

MULTINATIONAL INVESTMENT BANCORPORATION

Limited Selling Agents

PSBank PHILIPPINE SAVINGS BANK Metrobank Group

FIRST METRO INVESTMENT CORPORATION Metrobank Group

Final Offering Circular 12 May 2014

The date of this Final Offering Circular is 12 May 2014.

The BSP on 14 April 2014 approved the issuance and sale of the Notes.

The Issuer confirms that this Offering Circular contains all information with respect to the Issuer and the Notes which are material in the context of the issue and offering of the Notes, that the information contained herein are true and accurate in all material respects, are not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the Notes, make this document as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect and that all reasonable inquiries have been made by the Issuer to verify the accuracy of such information. The Issuer accepts responsibility accordingly.

In making an investment decision, the recipient of this document must rely on his own examination of the Issuer and the terms of the offering of the Notes, including the merits and risks involved. By receiving this Offering Circular, the recipient acknowledges that (i) he has not relied on ING Bank N.V., Manila Branch (''ING Bank'' or the "Arranger" or the ''Lead Manager''), Multinational Investment Bancorporation (''MIB''), and to a limited extent, the Issuer and First Metro Investment Corporation (collectively the "Selling Agents") or any person affiliated with the Lead Manager or the Selling Agents in connection with his investigation of the accuracy of any information in this Offering Circular or his investment decision, and (ii) no person has been authorized to give any information or to make any representation concerning the Issuer, or the Notes other than as contained in this Offering Circular and, if given or made, such information or representation should not be relied upon as having been made or authorized by the Issuer or the Arranger.

This Offering Circular contains forward looking statements that include, among others, statements concerning the Issuer's plans relating to (i) the expansion of its business and operations; (ii) the growth in its customer base and loan portfolio; (iii) the implementation of new information and other technologies; (iv) the ability to provide new products and services; and (v) the increase in its operational efficiencies, and other statements of expectation, belief, future plans and strategies, anticipated developments and other matters that are not historical facts and which may involve predictions of future circumstances. Investors are cautioned that these forward looking statements are subject to risks and uncertainties that could cause actual events or results to differ from those expressed or implied by the statements contained herein and no assurance can be given that the future results will be achieved. Actual events or results may differ materially as a result of the risks and uncertainties the Issuer faces. Such risks and uncertainties include, but are not limited to (i) actions taken by the BSP, who is the regulator of the banking industry in the Philippines, and by the Government of the Republic of the Philippines; (ii) actions taken by the Issuer's competitors; and (iii) general economic and political conditions in the Philippines.

No representation or warranty, express or implied, is made by the Arranger or the Selling Agents as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offer of Notes shall, under any circumstances, constitute a representation or create any implication that there has been no change, material or otherwise, in the condition, operations, or affairs of the Issuer since the date of this Offering Circular or that any information contained herein is correct as of any date subsequent to the date hereof.

None of the Issuer, the Arranger or the Selling Agents, or any of their respective affiliates or representatives makes any representation to any purchaser of the Notes regarding the legality of an investment by such purchaser under any applicable laws. In addition, the recipient should not construe the contents of this Offering Circular as legal, business, tax, or investment advice. The recipient should be aware that he may be required to bear for an indefinite period the risks, financial, tax, or otherwise of an investment in the Notes. The recipient is encouraged to consult with his own advisers as to the legal, tax, business, financial, and other related aspects of a purchase of the Notes.

This document does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make any such offer or solicitation. Each investor in the Notes must comply with all applicable laws and regulations in force in the jurisdiction in which it purchases or offers to purchase such Notes, and must obtain the necessary consent, approval, or permission for its purchase, or offer to purchase such Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchase or offer, and neither the Issuer nor the Arranger shall have any responsibility thereof. Interested investors should inform themselves as to the applicable legal requirements under the laws and regulations of the countries of their nationality, residence, or domicile and as to any relevant tax or foreign exchange control laws and regulations that may affect them.

TABLE OF CONTENTS

GLOSSARY OF TERMS

Allocation Report	The report which summarizes the total amount of Applications to Purchase accepted and the allocation of Notes among the Issuer and the various Selling Agents and Limited Selling Agents
AMLA	Anti-Money Laundering Act of the Philippines (Republic Act No. 9160), as amended, and its implementing rules and regulations
AMLC	Anti-Money Laundering Council
Application to Purchase	The application form to be executed by prospective investors in the form of Schedule 2 to the Registry and Paying Agency Agreement to designate their firm offer to purchase Notes from the Issuer through the Selling Agents and Limited Selling Agents
Applications Schedule	The Schedule of Applications to Purchase, which sets out the aggregate amount of the Notes applied for by each Applicant and summarizes the details of the latter
Arranger	ING Bank N.V., Manila Branch or any successor of such entity
ATM	Automated Teller Machine
Bank	Philippine Savings Bank
Banking Day	Any day of the week, other than Saturday, Sunday and holidays, when banks are not required or authorized to close in Makati City
BIR	Philippine Bureau of Internal Revenue
Board or Board of Directors	Board of Directors of the Bank
BSP	*Bangko Sentral ng Pilipinas,* the Central Bank of the Philippines
BSP Rules	The General Banking Law of 2000, the New Central Bank Act, BSP Memorandum to All Banks and Non-Bank Financial Institutions dated 17 February 2003 and BSP Circular No. 280 (2001) on the issuance of unsecured subordinated debt instruments eligible as Tier 2 capital, Circular 709 (Series of 2011) on the amendment of the risk-based capital adequacy framework for banks/quasi-banks on the definition of qualifying capital instruments, Circular No. 781 (Series of 2013) on the Basel III implementing guidelines on minimum capital requirements, Circular No. 826 (Series of 2014) on risk disclosure requirements for the loss absorbency features of capital instruments; Sections X115, X116, and X119 of the Manual of Regulations for Banks and other related Circulars and issuances, as may be amended from time to time.
CAR	Capital Adequacy Ratio, computed as Total qualifying capital less deductions divided by total risk weighted assets
Certificate of Indebtedness	The certificate to be issued by the Issuer evidencing and covering such amount corresponding to the Notes
Director	A Director of the Bank

DOSRI	Directors, Officers, Shareholders and Related Interests
Eligible Holders	All prospective purchasers of the Notes other than those identified as Prohibited Holders
FCDU	Foreign Currency Deposit Unit
GAAP	Generally Accepted Accounting Principles
General Banking Law	General Banking Law of 2000 (Republic Act No. 8791)
Holders	Any person who, at any relevant time from the Issue Date, appears in the Registry as the registered owner of the Notes
Interest Payment Date	On the August 23; November 23; February 23 and May 23 of each year until Final Maturity Date. If the Interest Payment Date is not a Business Day, interest will be paid on the next succeeding Business Day, without adjustment to the amount of interest to be paid.
Interest Period	A period from and including an Interest Payment Date to but excluding the next Interest Payment Date, provided that the first Interest Period shall commence on and include the Issue Date and the last Interest Period shall end on but exclude the Interest Payment Date falling on the Maturity Date
Issue Date	May 23, 2014, when the Notes are issued by the Issuer to the Holders, or such earlier or later date as the Issuer or Arranger may agree in writing.
Issue Management and Placement Agreement	The Issue Management and Placement Agreement dated on or about April 22, 2014 by and between the Issuer and the Arranger
Issue Price	An amount equal to one hundred percent (100%) of the face value of the Notes thereof
Issuer	Philippine Savings Bank
LGUs	Local Government Units
Limited Selling Agents	The Issuer and First Metro Investment Corporation, whose combined distribution amount will not exceed 50% of the total issue size.
Majority Holders	At any time, the Holder or Holders who hold, represent or account for more than fifty percent (50.00%) of the aggregate outstanding principal amount of the Notes
Market Maker Agreement	The Market Maker Agreement dated on or about April 22, 2014 by and among the Issuer and the Market Makers
Market Makers	Multinational Investment Bancorporation and thereafter, the institution appointed by the Issuer to perform the role of market maker required under the relevant BSP Rules or such fixed-income exchange authorized by the Securities and Exchange Commission on which the Notes may be listed after the Issue Date
Master Note	The Master Note issued by the Issuer to evidence its obligations under the Notes and includes the Terms and Conditions of the Note
Maturity Date	Unless previously redeemed, purchased and cancelled or converted, up to ten years and three months from the Issue Date at

	which date the Notes will be redeemed at their Maturity Value; Provided, that if such date is declared to be a non-Business Day, the Maturity Date shall be the next succeeding Business Day. Recognition of the Notes in regulatory capital in the remaining five (5) years before maturity will be amortized on a straight line basis.
Maturity Value	The amount of the face value of the Notes plus unpaid accrued applicable interest on the Notes up to but excluding the Maturity Date
Metrobank	Metropolitan Bank and Trust Company
Metrobank Group	Companies and individual shareholders affiliated/associated with Metrobank
Monetary Board	Monetary Board of the BSP
MSMEs	Micro, Small and Medium-sized Enterprises
National Government	The Government of the Republic of the Philippines
Net Tier 1 Capital	Total Tier 1 capital less deductions, such as deferred income tax, goodwill and unsecured credit accommodations to DOSRI
New Central Bank Act	New Central Bank Act of 1993 (Republic Act No. 7653)
NGAs	National Government Agencies
Note Agreements	Means the Issue Management and Placement Agreement, the Selling Agency Agreement, the Registry and Paying Agency Agreement, the Trust Agreement, and the Market Maker Agreement
Notes	Means the Notes with a maximum aggregate principal amount of Three Billion Pesos (₱3,000,000,000.00) to be issued by the Issuer on the terms and conditions set out in the Master Note and the corresponding Certificate of Indebtedness
NPAs	Non-Performing Assets
NPLs	Non-Performing Loans
Offer	An offer for the sale and distribution of the Notes to Eligible Holders
Offering Circular	The preliminary offering circular dated 22 April 2014 and the final offering circular dated 12 May 2014 prepared by the Arranger in connection with the offering of the Notes to the public
Offer Period	The period when the Notes are offered for sale by the Issuer through the Issuer's branches and the Selling Agents to prospective Eligible Holders, with the Offer Period commencing at 9:00 a.m. of May 8, 2014 and ending at 5:00 p.m. on May 16, 2014 or such other day as may be determined by the Arranger and Selling Agents, in consultation with the Issuer
OFWs	Overseas Filipino Workers
Option Notes	The Notes in respect of which the Issuer exercises the Call Option
Option Notice	The notice issued by the Bank indicating its intention to exercise its call option

PA Schedule	The schedule of Purchase Advice which summarizes the allocations made among the various applicants
Paying Agent	Philippine Depository & Trust Corp. such successor or substitute paying agent to be appointed by the Issuer upon prior approval of the BSP
Payment Account	The account to be opened and maintained by the Issuer with the Registrar and Paying Agent, into which the Issuer shall timely deposit the amount of interest and/or principal payments due, to be used exclusively for the payment of the interest on and principal due on the outstanding Notes on the relevant Payment Date, and to be managed solely and exclusively by the Registrar and Paying Agent
Payment Date	An Interest Payment Date, the Maturity Date, the Call Option Date, and any other date on which principal, interest on and/or any other amounts on the Notes are due and payable to the Holders
PCD	Philippine Central Depository, a corporation established to improve operations in securities transactions and provide a fast, safe and highly efficient system for securities settlement in the Philippines
PCD Nominee	PCD Nominee Corporation, a corporation wholly-owned by PCD which acts as trustee-nominee for all shares lodged in the PCD
PDIC	Philippine Deposit Insurance Corporation
PDST-F	Philippine Dealing System Treasury Fixing
PFRS	Philippine Financial Reporting Standards
PhilRatings	Philippine Rating Services Corporation
Prohibited Holders	The following persons and entities shall be prohibited from purchasing and/or holding any Notes of the Issuer: (1) the Issuer or any related party over which the Issuer exercises control or significant influence, including its subsidiaries and affiliates of the Issuer, including the subsidiaries and affiliates of the Issuer's subsidiaries and affiliates; or (2) unit investment trust funds managed by the Trust Department of the Issuer, its subsidiaries, and affiliates, or other related entities; or (3) other funds being managed by the Trust Department of the Issuer, its subsidiaries and affiliates or other related entities where (a) the fund owners have not given prior authority or instruction to the Trust Department to purchase or invest in the Notes or (b) the authority or and instruction of the fund owner and his understanding of the risk involved in purchasing or investing in the Notes are not fully documented. For purposes hereof, a “subsidiary” means, at any particular time, a company which is then directly or indirectly controlled, or more than fifty percent (50.0%) of whose issued voting equity share capital (or equivalent) is then beneficially owned, by the Issuer and/or one or more of its subsidiaries or affiliates and an “affiliate” refers to a related entity at least 20.0% to not more than 50.0% of the outstanding voting stock of which is owned by the Issuer; (4) such persons who are otherwise not qualified under the BSP Rules including such persons who have not complied with the requirements under BSP Circular No. 786 and BSP Circular No. 826 and (5) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time, which include: a

	U.S. citizen (including dual citizen); a U.S. resident alien for U.S. tax purposes; a US partnership; a U.S. corporation; any U.S. estate; any U.S. trust if: (a) a court within the United States is able to exercise primary supervision over the administration of the trust; (b) one or more U.S. persons have the authority to control all substantial decisions of the trust; any other person that is not a non-US person.
PSE	Philippine Stock Exchange
Public Trustee	Development Bank of the Philippines
Purchase Advice	The written advice to be issued by a Selling Agent, Limited Selling Agent, or the Market Maker, as the case may be, to the Holder and to the Registrar, confirming the fact, details, and terms and conditions of the purchase of the Notes by a Holder
Registrar	Philippine Depository & Trust Corp or such successor or substitute registrar to be appointed by the Issuer upon prior approval of the BSP
Registry and Paying Agency Agreement	The Registry and Paying Agency Agreement dated on or about April 22, 2014 by and between the Issuer and the Registrar and Paying Agent
Registry	The electronic records maintained by the Registrar containing the official information on the names of the Holders and the number of Notes they respectively hold, including records of all transfers of the Notes
Registry Confirmation	The written advice to be sent by the Registrar to the relevant Holder to confirm the number and terms and conditions of Notes registered in the Registry in the name of the Holder at any relevant time
Risk Weighted Assets	Consist of on-balance sheet and off-balance sheet assets with applicable credit risk, market risk and operational risk weights
ROPA	Real and Other Properties Acquired
RTGS	The Philippines Payment System via Real Time Gross Settlement that would allow banks to continually effect electronic payment transfers which are interfaced directly to the automated accounting and settlement systems of the BSP
SEC	Philippine Securities and Exchange Commission
Selling Agency Agreement	The Selling Agency Agreement dated on or about April 22, 2014 by and between the Issuer and the Selling Agents
Selling Agents	ING Bank N.V., Manila Branch and Multinational Investment Bancorporation, and to a limited extent, the Issuer and First Metro Investment Corporation, or any other entity appointed by the Issuer as agreed with the Arranger to sell and distribute the Notes to prospective Eligible Holders
SGV & Co.	SyCip Gorres Velayo & Co., a member firm of Ernst & Young Global Limited
SMEs	Small and Medium-sized Enterprises
SPV Act	The Special Purpose Vehicle Act of 2002 (Republic Act No. 9182)

SPVs	Special Purpose Vehicle companies
Terms and Conditions	The terms and conditions of the Notes, as set out in, and as qualified by, the section "*Terms and Conditions of the Notes*" of this Offering Circular
Tier 1 Capital	Consists of common stock, additional paid-in capital, retained earnings, undivided profits and cumulative translation adjustment
Total Qualifying Capital	The sum of Net Tier 1 Capital and Net Tier 2 Capital
Trust Agreement	The Trust Agreement dated on or about April 22, 2014 by and between the Issuer and the Public Trustee, setting out the terms and conditions upon which the Public Trustee shall act as trustee of the Notes for the benefit of the Holders

SUMMARY OF THE OFFERING

This summary highlights information contained elsewhere in this Offering Circular. This summary is qualified in its entirety by more detailed information and financial statements, including notes thereto, appearing elsewhere in this Offering Circular. For a discussion of certain matters that should be considered in evaluating an investment in the Notes, see "Investment Considerations." Investors are advised to read this entire Offering Circular carefully, including the Bank's financial statements and related notes contained herein.

Principal Products, Markets and Distribution

Philippine Savings Bank ("PSBank" or the "Bank" or the "Issuer") was established on 30 June 1959 primarily to engage in savings and mortgage banking. The Bank has outpaced some of its key competitors and is, today, the country's second largest thrift bank in terms of assets. The Bank is the country's first publicly listed thrift bank. The Bank caters mainly to the retail and consumer markets and offers a wide range of products and services such as deposits, loans, treasury, and trust. As of 31 December 2013, it has 224 branches. The Bank's total assets stood at ₱130.03 billion and ₱116.16 billion as of 31 December 2013 and 31 December 2012, respectively. Its total equity were at ₱16.26 billion and ₱15.03 billion as of 31 December 2013 and 31 December 2012, respectively.

As of 31 December 2013, the Bank is 75.98%-owned by Metrobank, a universal bank that provides a full range of banking and other financial services through its local and international branches. Metrobank is the country's second largest domestic bank with assets of ₱1.38 trillion and has an extensive distribution network of over 856 branches nationwide as of 31 December 2013.

Competitive Strengths

Majority owned by the Metrobank Group. PSBank is 75.98%-owned by the Metrobank Group, which is the second largest Philippine universal bank in terms of assets and deposits. Metrobank is one of the leading expanded universal banks in the country with more than 800 local and international offices and subsidiaries. Metrobank and PSBank serve distinct core markets and coordinate on market segmentation.

Focused on the consumer market. Its focus is on retail deposit taking and consumer lending to upper- and middle-income classes. Through its 224 branches, it has been able to accumulate ₱106.52 billion deposit liabilities as of 31 December 2013. Over the years, it has sought to develop products that address the needs of its target market.

Consistent customer service and training. PSBank emphasizes Customer Service which is considered a major part of all performance evaluation reviews for both front-line and back-end support personnel. In an industry where homogenous products and services are being offered, PSBank aims to set itself apart through a unique customer-driven experience.

Investments in Information Technology. PSBank has been investing in information technology for greater automation and integration of processes. This has resulted in improved efficiency through faster turn-around time for credit decisions, more uniform compliance with credit policies and better profit monitoring for its loan portfolio. PSBank offers one of the fastest turn-around times for mortgage and auto loan applications in the industry. It has a one day turn-around time for Auto Loans, five days for Home Loans and three days for Flexi/Personal Loans.

Strategy

The Bank's vision is to be the country's consumer and retail bank of choice. It also aims to become the country's largest and most profitable thrift bank. The Bank will do this by maintaining a strategic management discipline that focuses on the consumer market. It will continue to harness inherent synergies with Metrobank and, at the same time, differentiate itself through its unmatched service, speed, and quality. To grow the business, PSBank will rely on increasing visibility and customer convenience by establishing more branches throughout the country. This will be complemented by the Bank's continued improvements in customer profiling through its unique customer information system.

The objective is to stay ahead of the profitability curve and build a competitive advantage by having a focus on its target market. This will be supported by having a customer-centric performance oriented culture within the Bank and an organizational structure which encourages employees to be flexible and motivated contributors. The Bank continues to be fueled and inspired by its mission and mandate to deliver *Simple Lang, Maasahan* (Simple and Reliable) service at all times. See *Description of the Bank — Strategy of the Bank.*

Risks of Investing

Prospective investors should consider the current and immediate political and economic factors in the Philippines as a principal risk for investing. Political instability and threats to local and regional currencies may also influence the operations, growth, and profitability of the Bank. Of equal importance are the investment considerations regarding the Bank's operations. See *Investment Considerations*.

Summary of the Terms and Conditions

Issuer	Philippine Savings Bank
Notes.....................................	₱3,000,000,000.00 aggregate principal amount of 5.50% Fixed Rate Unsecured Subordinated Notes qualifying as Tier 2 Capital issued by the Issuer under these Terms and Conditions.
Issue Price	100% of the face value of each Note.
BSP Rules	The General Banking Law of 2000, the New Central Bank Act, *Bangko Sentral ng Pilipinas* ("BSP") Memorandum to All Banks and Non-Bank Financial Institutions dated 17 February 2003 and BSP Circular No. 280 (2001) on the issuance of unsecured subordinated debt instruments eligible as Tier 2 capital, Circular 709 (Series of 2011) on the amendment of the risk-based capital adequacy framework for banks/quasi-banks on the definition of qualifying capital instruments, Circular No. 781 (Series of 2013) on the Basel III implementing guidelines on minimum capital requirements, Circular No. 786 (Series of 2013) and Circular No. 826 (Series of 2014) on risk disclosure requirements for the loss absorbency features of capital instruments; Sections X115, X116, and X119 of the Manual of Regulations for Banks and other related Circulars and issuances, as may be amended from time to time.
Denomination	The Notes will be offered in minimum denominations of ₱500,000.00 each and increments of ₱100,000.00 beyond the minimum. The Notes will be represented by a Master Note which will be deposited with the Public Trustee.
Offer Period...........................	The period when the Notes shall be offered for sale by the Issuer through the Issuer's branches and the Selling Agents to prospective Holders, with the Offer Period commencing at 9:00 a.m. of May 8, 2014 and ending at 5:00 p.m. on May 16, 2014 or such other days as may be determined by the Arranger and Selling Agents, in consultation with the Issuer.
Issue Date	May 23, 2014, when the Notes are issued by the Issuer to the Holders, or such earlier or later date as the Issuer or Arranger may agree in writing.
Maturity Date.........................	Unless previously redeemed, purchased and cancelled or converted, up to ten years and three months from the Issue Date at which date the Notes will be redeemed at their Maturity Value; Provided, that if such date is declared to be a non-Business Day, the Maturity Date shall be the next succeeding Business Day. Recognition of the Notes in regulatory capital in the remaining five (5) years before maturity will be amortized on a straight line basis.
Initial Benchmark Rate..........	Prevailing Philippine Dealing System Treasury Fixing ("PDST-F") 5-year treasury securities benchmark rate displayed under the heading "Bid Yield" as published on the PDEx Page (or such successor page) of Bloomberg (or such successor electronic service provider) at approximately 11:30 a.m., Manila time on the date to be mutually agreed upon between the Issuer and the Arranger (the *Pricing Date*).
Initial Interest Rate	5.50% per annum, payable to the Holder for the period from and including the Issue Date up to, but excluding, the last day of the

	twenty-first (21st) Interest Period (if the Call Option is not exercised) or up to, but excluding, the Call Option Date (if the Call Option is exercised).
Initial Spread	1.4438% per annum (being the Initial Interest Rate minus the Initial Benchmark Rate).
Interest Payment Dates	On August 23, November 23, February 23 and May 23 of each year until Final Maturity Date. If the Interest Payment Date is not a Business Day, interest will be paid on the next succeeding Business Day, without adjustment to the amount of interest to be paid.
Reset Interest Rate	Benchmark as of Reset Date plus the Initial Spread, payable to the Holders in lieu of the Initial Interest Rate beginning on the twenty-second (22nd) Interest Period up to the last Interest Period in the event that the Issuer does not exercise the Call Option or Redemption Option.
Reset Date	August 23, 2019 which is the last day of the twenty-first (21st) Interest Period.
Benchmark as of Reset Date	Prevailing PDST-F 5-year treasury securities benchmark rate displayed under the heading “Bid Yield” as published on the PDEx Page (or such successor page) of Bloomberg (or such successor electronic service provider) at approximately 11:30 a.m., Manila time on the Banking Day immediately prior to the Reset Date. If there is no rate appearing on the PDEx Page under the heading ‘‘Bid Yield’’ as of 11:16 am, Manila time, on the Banking Day immediately prior to the Reset Date, the Public Trustee will request appropriate quotes for bid yields for a five (5)-Year FXTN from four reference banks (which shall be selected by the Public Trustee) and will determine the arithmetic mean of these bid yields (rounded upwards, if necessary, to the nearest one-sixteenth of one per cent) provided that at least three rates are so quoted.
Redemption..........................	Unless previously redeemed pursuant to the exercise of the Issuer’s Call Option, the Notes will be redeemed on Maturity Date at the Maturity Value. The Notes may not be redeemed at the option of the Holders.
Call Option	Unless previously converted, and provided a Non-Viability Trigger Event has not occurred and subject to the Regulations, the Issuer shall have the option (but not the obligation), upon securing all required regulatory approvals, to redeem the Notes as a whole, but not in part, in the following circumstances: (a) at the Call Option Amount, on the Call Option Date, subject to the prior approval of the BSP and the compliance by the Issuer with the Regulations and prevailing requirements for the granting by the BSP of its consent therefor, including (i) the capital adequacy ratio of the Issuer is well above the required minimum ratio after redemption; or (ii) the Note is simultaneously replaced, on or prior to the Call Option Date, with issues of new capital which is of the same or of better quality and is done under conditions which are sustainable for the income capacity of the Issuer; and (iii) at least a 30 Banking Day prior written notice to the then Holder on record. Any tax due on interest income already earned by the Holders on the Notes shall be for the account of the Issuer. The notice for the Call Option shall be sent by the Issuer to the

Public Trustee (with copy to the Registrar and Paying Agent) and to each of the registered Holders no less than thirty (30) Business Days nor more than forty five (45) Business Days prior to the Call Option Date. The Issuer shall likewise publish the notice of the Call Option in two (2) newspapers of general circulation in Metro Manila once a week for two (2) consecutive weeks at any time prior to the Call Option Date. Such notice shall state the Call Option Date, the Call Option Amount and the manner in which the call will be effected.

(b) prior to the stated maturity and on any Interest Payment Date (having given not more than 45 nor less than 30 days' notice) at par plus accrued interest at their principal amount plus accrued but unpaid interest thereon if or when payments or principal or interest due on the Notes become subject to additional or increased taxes, other than any taxes and rates of such taxes prevailing as of the Issue Date, as a result of certain changes in law, rule, or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer; or

(c) the non-qualification of the Notes as Tier 2 capital as determined by the BSP. Incremental tax, if any, that may be due on the interest income already earned under the Notes as a result of the exercise by the Issuer of its option for early redemption shall be for the account of the Issuer.

Nothing herein shall be construed as an indication that the Issuer will exercise its Call Option and the Holders should not expect that such Call Option will be exercised.

Call Option Amount...............	The principal amount of the Note plus accrued interest covering the accrued and unpaid interest as of but excluding the Call Option Date.
Call Option Date....................	Last day of the twenty-first (21st) Interest Period, and on any Interest Payment Date thereafter.
Redemption other than Call Option	Upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the Issuer may, upon prior approval of the BSP and at least a 30-Banking Day prior written notice to the Holders on record, redeem all and not less than all of the outstanding Notes prior to the stated maturity by paying the Holder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 101% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption (the Redemption Option Date).
Regulatory Redemption Event	If a Regulatory Redemption Event has occurred and is continuing, then the Issuer may, at any time prior to the Maturity Date, redeem the Notes (in whole but not in part) at the applicable Redemption Amount. A Regulatory Redemption Event is deemed to have occurred if the Issuer is notified in writing by the BSP to the effect that as a result only of any amendment to the applicable regulatory capital requirements, the Notes in their entirety no longer qualify as Tier 2 capital and may no longer be included in full in the consolidated Tier 2

	capital of the Issuer. In the event of a Regulatory Redemption Event, the Issuer shall shoulder the taxes due, if any, on the interest income already earned by the Holders.
Tax Redemption Event	If a Tax Redemption Event has occurred and is continuing, then the Issuer may, at any time prior to the Maturity Date, redeem the Notes (in whole but not in part) at the applicable Redemption Amount. A Tax Redemption Event is deemed to have occurred when: (a) as a result of a change in the tax treatment of the Notes because of changes in tax laws or regulations or interpretations thereof in respect of the Issuer's obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer would not be entitled to claim a deduction in computing its taxation liabilities in the Philippines; or (b) as a result of a change in the tax treatment of the Notes because of changes in tax laws or regulations or interpretations thereof, payments to qualified individual Holders would be subject to deduction or withholding for or on account of tax or would give rise to any obligation of the Issuer to account for any tax in the Philippines; and, in each case, such obligation cannot be avoided by the Issuer taking reasonable measures available to it. In the event of a Tax Redemption Event, the Issuer shall shoulder the taxes due, if any, on the interest income already earned by the Holders.
Non-Viability Trigger Event	A Non-Viability Trigger Event is deemed to have occurred when: (a) the Issuer is considered non-viable as determined by the BSP; or (b) Metropolitan Bank & Trust Company, the parent company of the Issuer, is considered non-viable as determined by the BSP. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or inability of the Issuer or Metropolitan Bank & Trust Company to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. Specifically, a Non-Viability Trigger Event shall be deemed to have occurred if the BSP notifies the Issuer in writing that it has determined that a: (a) Write-Down of the Notes and other capital instruments of the Issuer is necessary because, without such Write-Down, the Issuer or Metropolitan Bank & Trust Company would become non-viable; (b) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Issuer or Metropolitan Bank & Trust Company would become non-viable; or (c) Write-Down of the Notes and other capital instruments of the Issuer is necessary because, as a result of the closure of the Issuer, the Issuer or Metropolitan Bank & Trust Company would become non-viable.
Non-Viability Event Notice	The Non-Viability Event Notice means the notice that the Public Trustee shall give to the Holders stating that a Non-Viability Trigger Event has occurred, which notice shall be given, no later than three (3) Banking Days after the occurrence of a Non-Viability Trigger

Event.

Loss Absorption Due to Non-Viability Trigger Event; Non-Viability Write-Down

The Notes have a loss absorption feature which means the Notes are subject to a Non-Viability Write-Down in case of a Non-Viability Trigger Event.

If a Non-Viability Trigger Event has occurred and is continuing, the Issuer shall, no later than the 10 AM on the Banking Day immediately following the occurrence of such Non-Viability Trigger Event, give a Non-Viability Notice to the Public Trustee and to the Registrar and Paying Agent (which notice shall be irrevocable), subject as provided below (without the need for the consent of Holders or the Public Trustee):

a) cancel any Interest which is accrued and unpaid to the relevant Loss Absorption Effective Date; and
b) *pari passu* with any other Tier 2 Loss Absorbing Instruments (where possible) irrevocably (without the need for the consent of Holders or the Trustee), reduce the then prevailing principal (which would include such amount of Written-Down principal as a consequence of a Loss Absorption Measure) of each Note by the relevant Write-Down Amount (such reduction being referred to as a Write-Down, and Written-Down being construed accordingly),

(a *Loss Absorption Measure*), in each case, after having written-down to zero or converted into common equity of the Issuer any Tier 1 Loss Absorbing Instruments (where possible) irrevocably in accordance with the Conditions to Loss Absorption Measure herein below.

Non-Viability Notice means a notice which specifies which Non-Viability Trigger Event(s) has/have occurred, the Write-Down Amount and the Loss Absorption Effective Date, which shall be not earlier than five Banking Days nor later than 10 Banking Days following the giving of the Non-Viability Notice. Any Non-Viability Notice must be accompanied by a certificate signed by two Directors of the Issuer stating that the relevant Non-Viability Trigger Event has occurred, setting out the method of calculation of the Write-Down Amount and the particulars of a Tier 1 Write-Down (including but not limited to details of each series of Tier 1 Loss Absorbing Instruments written down or converted into common equity and such amount Written-Down. The Public Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the occurrence of a Non-Viability Trigger Event, in which event, it shall be conclusive and binding on the Holders.

Tier 1 Loss Absorbing Instrument means instrument (other than Common Shares) issued directly or indirectly by the Issuer or another entity within the Group which qualifies as Tier 1 capital of the Group.

Tier 2 Loss Absorbing Instrument means any instrument (other than the Notes) issued directly or indirectly by the Issuer or another entity within the Group which (a) qualifies as Tier 2 capital of the Group; and (b) which also has all or some of its principal amount written-down (in accordance with its conditions or otherwise) on the occurrence of the relevant Non-Viability Trigger Event.

Group means the Issuer and its consolidated subsidiaries.

Upon the occurrence of a Non-Viability Trigger Event, the Issuer shall write-down such amount of Notes sufficient to re-establish the viability of the Issuer or Metropolitan Bank & Trust Company, as determined in

accordance with applicable BSP rules and regulations, which could go to as low as zero.
If a Non-Viability Trigger Event occurs with respect to Metropolitan Bank & Trust Company, then subject to and in accordance with the regulations of BSP and its approval for the issuance of the Notes, the Issuer will write-down some or all of the Notes in accordance with BSP's determination.

Additional Tier 1 ("AT1") capital instruments shall be utilized first before Tier 2 capital instruments are written-off, until the viability of the Issuer or Metropolitan Bank & Trust Company, as the case may be, is re-established. In the event the Bank does not have AT1 capital instruments, then the write-down shall automatically apply to Tier 2 capital.

A Non-Viability Write-down shall have the following effects: (a) it shall reduce the claim on the Notes in liquidation; (b) reduce the amount re-paid when a call or redemption is properly exercised, and (c) partially or fully reduce the interest payments on the Notes.

Upon the occurrence of a Non-Viability Write-down, the full principal amount of the Notes may be permanently written down to zero and the Notes may be cancelled, and, as a result, the Holders may lose the entire amount of their investment in the Notes irrespective of whether the Issuer has sufficient assets available to settle the claims of the Holders under the Notes, in bankruptcy proceedings or otherwise.

Any such Non-Viability Write-down will be irrevocable and the Holders will, upon the occurrence of a Non-Viability Write-down, not (i) receive any shares or other participation rights of the Bank or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Issuer or any other member of the Issuer, nor (ii) be entitled to any subsequent write-up or any other compensation in the event of a potential recovery of the Issuer or its subsidiaries.

Following the giving of a Non-Viability Notice, the Issuer shall ensure that:

(a) a similar notice is, or has been, given in respect of other Tier 2 Loss Absorbing Instruments (in accordance with their terms); and
(b) the outstanding principal amount of each series of Tier 2 Loss Absorbing Instruments (if any) is written-down on a pro rata basis with the principal (which would include such amount of Written-Down principal as a consequence of a Loss Absorption Measure) of the Notes as soon as reasonably practicable following the giving of such Non-Viability Notice and in any event not later than the Loss Absorption Effective Date.

Giving effect to a Loss Absorption Measure is subject to the following conditions ("Conditions to Loss Absorption Measure"):

(a) the principal amount of all series of Tier 1 Loss Absorbing Instruments outstanding (if any) having been (in accordance with, and to the extent possible pursuant to, their terms) Written-Down to zero or converted into common equity of the Issuer (where possible) irrevocably (Tier 1 Write-Down);
(b) the Tier 1 Write-Down having been insufficient to cure the Non-Viability Event; and
(c) the Issuer giving the relevant Non-Viability Notice to the Public Trustee and the Registrar and Paying Agent as

provided above.

Purpose of Issuance .... To strengthen the Bank's capital base and allow it to expand and strengthen its banking operations

Secondary Trading................ All secondary trading of the Notes shall be coursed through the Market Maker referred to in the same Regulations, or effected using the trading facilities of PDEx, as applicable, subject to compliance with the provisions of the BSP Rules, specifically on BSP Circular No. 786, the payment by the Holder of the proper fees to the Market Maker and the Registrar. Any transfer between investors of different tax status with respect to the Issue shall only be effective on an Interest Payment Date. Transfers shall be subject to the procedures of the Registrar and PDEx, including but not limited to the guidelines on minimum trading lot and record dates.

The Bank intends to list the Notes in PDEx for secondary market trading. Upon listing of the Notes with PDEx, investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and shall settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. The secondary trading of Notes in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades.

In case of a transfer or assignment deemed by the Issuer as a pre-termination, solely for withholding tax purposes, the transferor Holder shall be liable for the resulting tax due on the entire interest income earned on the Notes (if any), based on the holding period of such Notes by the transferor Holder and the amount equal to the final withholding tax, if any, will be deducted from the purchase price due to it. Thereafter, the interest income of a transferee Holder who is an individual shall not be treated as income from long-term deposit or investment certificates, unless the Notes has a remaining maturity of at least 5 years.

Transfers or assignments deemed by the Issuer as pre-termination for withholding tax purposes means any transfer or assignment which: (a) is made by a Holder who is a citizen, resident individual, non-resident individual engaged in trade or business in the Philippines, or a trust (subject to certain conditions); (b) under the Regulations, is not considered a pre-termination of the Notes; and (c) under relevant tax laws or revenue regulations, will result in the interest income on the Notes being subject to the graduated tax rates imposed on long-term deposit or investment certificates on the basis of the holding period of the investment instrument.

No transfer or assignment of the Notes shall be recorded in the Registry unless the Issuer (or its duly authorized agent) has certified that the amount representing the tax due or arising from any such transfer or assignment has been paid.

Status and Subordination...... The Issuer, for itself, its successors and assigns, has in the Trust Agreement covenanted and agreed, and each Holder by accepting a Note irrevocably agrees and acknowledges, that:

(a) the indebtedness evidenced by the Notes constitutes direct, unconditional unsecured and subordinated obligations of the

Issuer, and, upon any distribution to creditors of the Issuer in a Winding Up of the Issuer (as defined below), the claims of the Holders in respect of the Notes shall be subordinated in right of payment, to the extent and in the manner provided hereunder, to the prior payment in full of all liabilities (whether actual or contingent, present or future) of the Issuer, including claims of depositors, except those subordinated liabilities which by their terms rank equally in right of payment with or junior to the Notes;

(b) the Notes are not deposits and are not insured by the Philippine Deposit Insurance Corporation;

(c) the Notes are unsecured and are not covered by a guarantee of the Issuer or Arranger or any other related party of the Issuer or Arranger. Neither are the Notes covered by any other arrangement that legally or economically enhances the priority of the claim of the Holders as against depositors and other creditors of the Issuer;

(d) claims in respect of the Notes will rank *pari passu* without preference among themselves, in priority to the rights and claims of holders of all classes of equity securities of the Issuer, including holders of preference shares, if any;

(e) upon the distribution to creditors or any assets of the Issuer in the event of any insolvency or liquidation of the Issuer, the claims of Holders for principal and interest in respect of the Notes shall be subordinated in right of payment to claims (whether actual or contingent, present or future) of all depositors and creditors of the Issuer, except those creditors that are expressly ranked equally with or junior to the Holders in right of payment;

(f) the Notes may not be used as collateral for any loan made by the Issuer or any of its subsidiaries or affiliates;

(g) holders or their transferees shall not be allowed, and hereby waive their right, to set off any amount they owe to the Issuer against the Notes; and

(h) the recognition of the Notes as regulatory capital in the remaining five years before maturity shall be amortized on a straight-line basis or in accordance with prevailing regulations at that time.

Holder/s…………………….. Any person who, at any relevant time from the Issue Date, appears in the Registry as the registered owner of the Notes.

Prohibited Holders................ The following persons and entities shall be prohibited from purchasing and/or holding any Notes of the Issuer: (1) the Issuer or any related party over which the Issuer exercises control or significant influence, including its subsidiaries and affiliates of the Issuer, including the subsidiaries and affiliates of the Issuer's subsidiaries and affiliates; or (2) unit investment trust funds managed by the Trust Department of the Issuer, its subsidiaries, and affiliates, or other related entities; or (3) other funds being managed by the Trust Department of the Issuer, its subsidiaries and affiliates or other related entities where (a) the fund owners have not given prior authority or instruction to the Trust Department to purchase or invest in the Notes or (b) the authority or and instruction of the fund owner and his understanding of the risk involved in purchasing or investing in the Notes are not fully documented. For purposes hereof, a "subsidiary" means, at any particular time, a company which is then directly or indirectly controlled, or more than fifty percent (50.0%) of whose issued voting equity share capital (or equivalent) is then beneficially owned, by the Issuer and/or one or more of its subsidiaries or affiliates and an "affiliate" refers to a related entity at least 20.0% to not more than 50.0% of the outstanding voting stock of which is owned by the Issuer; (4) such persons who are otherwise not qualified under the BSP Rules including such persons who have not complied with the requirements under BSP Circular No. 786 and BSP Circular No. 826 and (5) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time, which include: a U.S. citizen (including dual citizen); a U.S. resident alien for U.S. tax purposes; a US partnership; a U.S. corporation; any U.S. estate; any U.S. trust if: (a) a court within the United States is able to exercise primary supervision over the administration of the trust; (b) one or more U.S. persons have the authority to control all substantial decisions of the trust; any other person that is not a non-US person.

Taxation .... In the event that the Holder is either (i) a Filipino citizen, (ii) an alien residing in the Philippines, (iii) a non-resident alien engaged in trade or business in the Philippines, (iv) subject to the clause on Prohibited Holders, a long-term trust account or long-term management account (including common trust funds of banks other than the Issuer) exclusively for Filipino citizens, aliens residing in the Philippines, and non-resident aliens engaged in trade or business in the Philippines; (v) a BIR-tax-qualified employee trust fund established by corporations; or (vi) any other tax-exempt institution (upon presentation of acceptable proof of tax exemption), all payments for principal and interest shall be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including interest and penalties, unless such withholding or deduction is required by law.

In the event there is a change in the tax status of the Notes because of new, or changes in tax laws (and not merely a change in the interpretation of present tax laws and regulations) as a result of which, any payments of principal and/or interest under the Notes shall be subject to deductions or withholdings for or on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the "New Taxes"), then all payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any such new taxes. In that event, the Issuer shall pay to the Holders concerned such additional amount as will result in the receipt by the Holders of such amounts as would have been received by them had no such withholding or deduction for new taxes been required. For the avoidance of doubt, such taxes and duties imposed shall be for the account of the Holder and the Issuer shall make the necessary withholding or deduction for the account of the Holder concerned;

In any case, however, the Issuer shall not be liable for:

(a) the twenty percent (20.0%) or such other final withholding tax applicable on interest earned on the Notes prescribed under the National Internal Revenue Code ("NIRC") of 1997, as amended;
(b) Gross Receipts Tax under Section 121 of the NIRC;
(c) taxes on overall income of any securities dealer or any Holder, whether or not subject to withholding; and
(d) Value Added Tax ("VAT") under Sections 106 to 108 of the NIRC, as amended by Republic Act No. 9337.

As required by law, the abovementioned 20.0% final withholding tax on interest income shall be withheld by the Issuer as withholding agent. The Issuer shall, upon request of the relevant Holder, provide the necessary proof of such withholding and corresponding payment to the Philippine revenue authorities.

In case of transfers and assignments deemed by the Issuer as a pre-termination for tax purposes, the transferor Holder shall be liable for the resulting tax due on the entire interest income earned on the Notes (if any), based on the holding period of such Notes:

(1) Four (4) years to less than five (5) years:	5.0%;
(2) Three (3) years to less than four (4) years:	12.0%; and
(3) Less than three (3) years:	20.0%.

Documentary stamp tax for the primary issuance of the Notes and the execution of the agreements pursuant thereto, if any, shall be for the Issuer's account.

Arranger………………………	ING Bank N.V., Manila Branch
Selling Agents………………	ING Bank N.V., Manila Branch, and Multinational Investment Bancorporation
Limited Selling Agents……..	Philippine Savings Bank ("PSBank") and First Metro Investment Corporation ("FMIC") PSBank and FMIC, acting as Limited Selling Agents, shall: (i) distribute no more than fifty percent (50.0%) of the total issuance of the Notes, (ii) enforce adequate client suitability procedures, and (iii) perform the other functions and responsibilities of a Selling Agent.
Registrar and Paying Agent….	Philippine Depository & Trust Corp
Market Maker	Multinational Investment Bancorporation
Public Trustee	Development Bank of the Philippines

SUMMARY FINANCIAL INFORMATION

The following tables provide selected financial information of the Bank which has been derived from its audited financial statements as of and for the years ended 31 December 2013, 2012, and 2011, including the notes thereto, included elsewhere in the document. The Bank's audited financial statements as of 31 December 2013 and 2012 and for the three years in the period ended 31 December 2013 are prepared in accordance with Philippine Financial Reporting Standards for banks.

Statements of Income

	For the years ended 31 December		
(In ₱)	**2013**	**2012 (As Restated)**	**2011**
Interest Income	9,027,235,611	8,786,264,360	8,976,586,827
Interest Expense	2,340,415,810	3,114,474,095	3,267,133,019
Net Interest Income	6,686,819,801	5,671,790,265	5,709,453,808
Net Service Fees and Commission Income	962,558,457	878,624,324	732,878,178
Other Operating Income	4,525,581,846	2,714,942,207	1,242,467,602
Total Operating Income	12,174,960,104	9,265,356,796	7,684,799,588
Other Expenses	8,175,866,491	6,445,422,508	5,688,672,802
Income before Share in Net Income (Loss) of an Associate and a Joint Venture and Income Tax	3,999,093,613	2,819,934,288	1,996,126,786
Share in Net Income (Loss) of an Associate and a Joint Venture	109,569,160	(18,323)	8,271,646
Income before Income Tax	4,108,662,773	2,819,915,965	2,004,398,432
Provision for (Benefit from) Income Tax	1,180,173,965	545,332,076	(24,360,250)
Net income	**2,928,488,808**	**2,274,583,889**	**2,028,758,682**

Statements of Condition

(In ₱)	**31 December 2013**	**31 December 2012 (As Restated)**	**1 January 2012 (As restated)**
Assets			
Cash and Other Cash Items	3,157,499,370	2,811,064,294	3,921,289,371
Due from Bangko Sentral ng Pilipinas	7,401,657,444	5,514,832,823	4,303,595,290
Due from Other Banks	8,491,340,954	6,002,439,123	3,736,072,634
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	14,527,000,000	6,100,000,000	10,480,000,000
Fair Value through Profit or Loss Investments	184,607,411	120,747,754	54,794,038
Available-for-Sale Investments	5,649,063,231	3,309,190,548	18,693,113,028
Held-to-Maturity Investments	-	13,562,925,624	12,313,815,034
Loans and Receivables	82,917,120,994	70,412,582,319	58,190,152,155
Investments in an Associate and a Joint Venture	1,346,142,412	1,237,181,758	1,237,381,423
Property and Equipment	2,389,780,404	2,412,337,390	2,382,152,118
Investment Properties	2,589,408,311	2,622,918,872	2,802,259,434
Deferred Tax Assets	243,119,247	1,024,770,681	1,144,829,464
Goodwill and Intangible Assets	292,832,054	231,741,838	255,179,428
Other Assets	836,302,917	798,231,274	741,668,569
Total Assets	**130,025,874,749**	**116,160,964,298**	**120,256,301,986**

(In ₱)	31 December 2013	31 December 2012 (As Restated)	1 January 2012 (As restated)
Liabilities			
Deposit Liabilities			
Demand	9,050,826,107	7,400,508,552	11,421,806,073
Savings	16,181,291,134	12,387,740,595	11,668,374,766
Time	81,286,386,669	74,836,037,160	78,460,154,771
	106,518,503,910	94,624,286,307	101,550,335,610
Subordinated Notes	2,972,366,024	2,969,797,342	-
Treasurer's, Cashier's and Manager's Checks	1,110,517,230	756,629,354	654,513,679
Accrued Taxes, Interest and Other Expenses	1,099,730,994	1,054,167,235	1,208,024,456
Income Tax Payable	132,339	-	-
Other Liabilities	2,061,548,773	1,728,845,734	1,315,596,125
Total Liabilities	113,762,799,270	101,133,725,972	104,728,469,870
Equity			
Common Stock	2,402,524,910	2,402,524,910	2,402,524,910
Capital Paid in Excess of Par Value	2,818,083,506	2,818,083,506	2,818,083,506
Surplus Reserves	1,035,275,317	1,035,275,317	1,035,275,317
Surplus	10,205,364,827	8,718,390,965	7,020,413,054
Net Unrealized Gain on Available-for-Sale Investments	22,289,515	206,153,207	2,399,747,805
Equity in Net Unrealized Gain on Available-for-Sale Investments of an Associate	25,000	-	-
Remeasurement Losses on Retirement Plan	(178,577,793)	(85,597,229)	(93,898,031)
Equity in Remeasurement Losses on Retirement Plan of a Joint Venture	(479,690)	(181,342)	-
Equity in Cash Flow Hedge Reserve of an Associate	(335,158)	-	-
Cumulative Translation Adjustment	(41,094,955)	(67,411,008)	(54,314,445)
Total Equity	16,263,075,479	15,027,238,326	15,527,832,116
	130,025,874,749	**116,160,964,298**	**120,256,301,986**

Selected Financial Ratios

	Audited As of 31 December		
	2013	**2012**	**2011**
Return on Average Assets (1)	2.38	1.92	1.81
Return on Average Equity (2)	18.72	14.89	14.94
Net Interest Margin on Average Earning Assets (3)	5.88	5.19	5.49
Tier 1 Capital Adequacy Ratio (4)	13.81	13.63	13.93
Capital Adequacy Ratio (5)	16.92	17.14	13.93
Earnings per share (₱) (6)	12.19	9.47	8.44

(1) Net income divided by average total assets for the period indicated. Average total assets is based on the two-point average considering outstanding balance as of 31 December 2013 and for the years ended 31 December 2013, 2012, and 2011.

(2) Net income divided by average total equity for the period indicated. Average total equity is based on the two-point average considering outstanding balance as of 31 December 2013 and for the years ended 31 December 2013, 2012, and 2011.

(3) Net interest income divided by average interest-earning assets.

(4) Net Tier 1 capital divided by total risk weighted assets.

(5) Total qualifying capital divided by total risk-weighted assets, as reported to the BSP.

(6) Net income divided by weighted average number of outstanding common share.

Source: PSBank

MANAGEMENT DISCUSSION AND ANALYSIS

Balance Sheet

Assets

The Bank's Total Assets for the year ending December 31, 2013 stood at ₱130.03 billion. This was 11.94% better than the December 2012 level of ₱116.16 billion. Significant year-on-year increase was attributed to the higher loan portfolio and securities purchased under resale agreements with BSP.

Loans and Receivables

Loans and Receivables, net of allowance and unearned interest discounts, representing 63.77% of total assets increased by 17.76% to ₱82.92 billion from ₱70.41 billion. Auto Loans increased by ₱6.87 billion to ₱37.96 billion from ₱31.10 billion last year. Mortgage Loans also climbed to ₱28.01 billion from ₱22.38 billion in 2012.

Cash and Cash Equivalents

Interbank Loans Receivable and Securities Purchased under Resale Agreements (SPURA) representing 11.17% of total assets rose by ₱8.43 billion or 138.15% to ₱14.53 billion from ₱6.10 billion in December 2012 due to the increase in overnight and term placements with BSP as of December 2013.

Due from Other Banks which is 6.53% of the total assets went up to ₱8.49 billion from ₱6.00 billion due to additional FCDU placements with foreign and local banks. Due from BSP increased by 34.21% or ₱1.89 billion to ₱7.40 billion in 2013. Cash and Other Cash Items were also higher by 12.32% to ₱3.16 billion.

Securities and Investments

In March 2013, the Bank reclassified the entire HTM portfolio to AFS as the Bank no longer intends to hold them up to their maturity but rather stands ready to sell such investments. Such change of intention was primarily driven by the need to increase the Bank's capital position in view of the following directions set forth in BSP Circular No. 781:

- More stringent Basel III and BSP requirements to issue Tier 2 due to the inclusion of loss absorbency feature.
- Ineligibility of the Bank's ₱3.0 Billion Tier 2 capital by January 2016.

The change in intention and eventual disposal of the said HTM investments portfolio in response to the significant increase in regulatory capital requirements is one of the conditions permitted under PAS 39 and thus, is exempt from the tainting rule.

Subsequent to the reclassification, the Bank sold a substantial portion of the said portfolio resulting in realized trading gain of ₱4.0 billion in 2013.

Available-for-Sale Investments rose by 70.71% or ₱2.34 billion to ₱5.65 billion from ₱3.31 billion in 2012. Fair Value through Profit or Loss (FVPL) also increased by ₱63.86 million or 52.89%.

Deferred Tax Assets, Investment in an Associate and a Joint Venture and Goodwill and Intangible Assets

Deferred Tax Assets went down by 76.28% to ₱243.12 million from ₱1.02 billion in 2012 due to reversal of deferred tax benefits arising from the write-off of loan accounts. Meanwhile, Investment in an Associate and a Joint Venture was higher by ₱108.96 million to ₱1.35 billion as a result of improved earnings of the Bank's affiliates. Goodwill and Intangible Assets including software costs and branch licenses increased by 26.36% or ₱61.09 million to ₱292.83 million.

Investment Property, Property and Equipment and Other Assets

Investment Property decreased by 1.28% to ₱2.59 billion as of December 2013 due to sale of foreclosed real estate properties. Property and Equipment also declined by 0.94% or ₱22.56 million to ₱2.39 billion mainly due to sale of properties amounting to ₱71.98 million. On the other hand, Other Assets went up by 4.77% or ₱38.07 million representing foreclosed chattel mortgage.

Deposits

The Bank's deposit level comprising of 93.63% of total liabilities grew by 12.57% or ₱11.89 billion to ₱106.52 billion from ₱94.62 billion recorded in 2012. Time Deposits grew by 8.62% or ₱6.45 billion to ₱81.29 billion. Likewise, Savings Deposits increased by 30.62% to ₱16.18 billion from ₱12.39 billion in 2012 while Demand Deposits increased by 22.30% to ₱9.05 billion.

Subordinated Notes

As of December 31, 2013, the Tier II Notes net of debt issuance cost amounted to ₱2.97 billion. The Tier II Notes was issued last February 20, 2012 and has a call option on the 5th year and matures in 2022. Last March 2014, PhilRatings maintained its PRS Aaa rating for the outstanding ₱3.00 billion unsecured subordinated notes. Obligation rated PRS Aaa are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. PRS Aaa is the highest rating assigned by PhilRatings.

Other Liabilities

Treasurer's, Cashier's and Manager's Checks increased by 46.77% to ₱1.11 billion from ₱756.63 million last year. Accrued Taxes, Interest and Other Expenses increased by 4.32% to ₱1.10 billion from ₱1.05 billion. Income Tax Payable representing corporate income tax for FCDU was at ₱0.13 million. Other Liabilities rose to ₱2.06 billion from ₱1.73 billion due to higher accounts payable and net retirement liability with the adoption of PAS 19 effective January 2013.

Equity

The Bank ended December 31, 2013 with an Equity of ₱16.26 billion, 8.22% better than the ₱15.03 billion level in 2012. With the higher income realized for the year, surplus improved by 17.06% or ₱1.49 billion to ₱10.21 billion from ₱8.72 billion in 2012. Net Unrealized Gain on AFS Investments dropped to ₱22.29 million in December 2013 from ₱206.15 million the previous year. As of end of 2013, Capital Adequacy Ratio (CAR) was at 16.92%. This is above the minimum regulatory requirement of 10%. As of December 31, 2013 and 2012, the Bank recorded loss on 'Cumulative Translation Adjustment' under equity amounting to ₱41.09 million and ₱67.41 million, respectively.

The Bank's Remeasurement Losses on Retirement Plan as of December 31, 2013 amounted to ₱178.58 million versus ₱85.60 million losses as of December 31, 2012 due to the impact of PAS 19 on re-measurement of retirement liability which was adopted by the Bank in January 2013.

Meanwhile, Return on Average Equity (ROAE) increased to 18.72% in 2013 versus 14.89% in 2012. Return on Average Assets (ROAA) also rose to 2.38% in 2013 from 1.92% in 2012.

Income Statement

Net Income

The Bank's net income grew by 28.75% to ₱2.93 billion in 2013 from ₱2.27 billion in 2012. Total Interest Income increased by 2.74% or ₱240.97 million, better than the ₱8.79 billion recorded last year.

Net Interest Income, Service fees and Commission Income

Interest income on Loans and Receivables showed a 14.69% improvement or an increase of ₱1.04 billion. On the other hand, Interest income on Investment Securities slid to ₱375.40 million from ₱1.34 billion due to disposal of various government securities. Meanwhile, Interest earned from

Interbank Loans Receivable and SPURA increased by 42.53% or ₱142.90 million to ₱478.94 million versus ₱336.04 million. Interest earned from deposits with BSP increased by 59.01% to ₱42.22 million while interest income from other banks was up by 66.67% to ₱8.24 million.

Interest Expense on the Bank's deposit liabilities decreased by 27.14% to ₱2.16 billion due to lower cost of funds in 2013. Interest Expense on Subordinated Notes rose to ₱175.25 million from ₱152.87 million due to amortization of debt issuance cost related to the issuance of Unsecured Subordinated Notes (Tier II). The Bank also recorded ₱7.48 million Interest Expense on Bills Payable for the year ended 31 December 2013.

As of December 2013, Net interest Income rose to ₱6.69 billion from ₱5.67 billion in 2012. Net Service Fees and Commission Income increased by 9.55% to ₱962.56 million from ₱878.62 million in 2012.

Non-Interest Income

Other Operating Income also posted a favorable growth of 66.69% or ₱1.81 billion to ₱4.53 billion. The Bank took advantage of the trading opportunities resulting in higher trading and securities gain – net of ₱4.07 billion vs. ₱2.57 billion in 2012 or an increase of ₱1.50 billion.

The Bank registered a net gain on foreclosure and sale of investment properties amounting to ₱269.75 million from ₱140.02 million or an increase of ₱129.73 million. On the other hand, the Bank registered a ₱130.93 million loss on foreclosure and sale of chattel mortgage properties in 2013 versus ₱159.60 million in 2012.

Meanwhile, Foreign Exchange loss was posted at ₱3.88 million compared to the FX gain of ₱12.12 million recorded a year ago.

Other Operating Expenses, excluding provision for impairment, was up by 13.88% to ₱6.04 billion from ₱5.30 billion a year ago. Occupancy and equipment-related costs increased by ₱6.97 million or 1.26% to ₱559.76 million due to the opening of four additional branches and installation of nineteen (19) ATMs during the year.

Taxes and Licenses went up by 25.93% or ₱217.01 million due to higher local and gross receipt taxes paid during the year. Compensation and Fringe Benefits rose to ₱2.16 billion from ₱1.98 billion in 2012. Meanwhile, Amortization of Intangible Assets increased by ₱11.22 million or 19.60% to ₱68.45 million. Miscellaneous Expenses went up by 26.52% to ₱1.46 billion due to higher information technology, litigation and advertising expenses.

The Bank set aside a total of ₱2.14 billion in provisions for credit and impairment losses. The Bank also recorded share in net income of Toyota Financial Services Philippines Corp. (TFSPC) and Sumisho Motor Finance Corporation (SMFC) amounting to ₱109.57 million, from the ₱18.32 thousand loss reflected in 2012. The Bank's share in net income of TFS went up to ₱109.20 million from ₱49.26 million while share in net income of SMFC was at ₱0.37 million in 2013.

INVESTMENT CONSIDERATIONS

An investment in the Notes involves a number of investment considerations. You should carefully consider all the information contained in this Offering Circular including the investment considerations described below, before any decision is made to invest in the Notes. The Bank's business, financial condition and results of operations could be adversely affected materially by any of these investment considerations. The market price of the Notes could decline due to any one of these risks, and all or part of an investment in the Notes could be lost.

Considerations Relating to the Bank

Significant Shareholding by Metrobank

As of 31 December 2013, a significant portion of the equity of the Bank, or 75.98%, is owned by Metrobank. The next largest shareholder is the Dolor Family, which owns 8.42% of the Bank. There is no assurance that the interests of Metrobank will necessarily coincide with the interests of the Holders.

Concentration of Loan Portfolio

As of 31 December 2013, the Bank's top 10 largest exposures account for 11.26% of the Bank's gross loan portfolio. There can be no assurance that these exposures would continue to perform their obligations to the Bank.

As of 31 December 2013, 76.69% or ₱67.20 billion of the Bank's gross loan portfolio is concentrated in three major economic activities. These include Real Estate (at ₱27.04 billion or 30.86%), Other Community, Social and Personal Activities (at ₱22.52 billion or 25.70%), and Wholesale and Retail Trade (at ₱17.64 billion or 20.13%).

The Bank has significant exposure to the Philippine real estate market as well as the level of real estate it holds as collateral. As of December 31, 2013, loans secured by real estate collateral accounted for 40.32% of the Bank's total secured loans to customers. The Philippine real estate market is highly cyclical, and real estate prices in general have been volatile. Real estate prices are affected by a number of factors, including, among other things, the supply of and demand for comparable properties, the rate of economic growth in the Philippines, remittances from OFWs and political and economic developments. Accordingly, an extended downturn in the Philippine real estate sector could increase the level of the Bank's NPLs and related provisions for impairment loan losses, reduce the Bank's net income and consequently materially and adversely affect the Bank's business, financial condition and results of operations.

High Level of Regulation

The Bank, being subject to the supervision and regulation of the BSP, is periodically audited by the BSP through the appropriate Supervision and Examination Sector for compliance with banking rules and regulations. While the Bank believes that as of 31 December 2013, it is fully compliant with all applicable rules and regulations and has effectively and efficiently implemented all corrective actions required, if any, to the satisfaction of the BSP, there can be no assurance that the Bank will at all times be compliant or that the BSP will find the operations or corrective measures taken by the Bank to be proper, acceptable or sufficient. In such cases, the Bank could be reprimanded, fined, or in extreme cases, have its banking license revoked, but at all times after due notice and hearing.

Level of Non-Performing Loans

As of 31 December 2013, the Bank's NPL ratio was at 0.20%. Through the implementation of stringent credit policies, the Bank expects its NPLs to further taper off. Ongoing volatile economic conditions in the Philippines may adversely affect the ability of the Bank's borrowers to service their indebtedness and as a consequence the Bank may experience an increase in NPLs and provisions for probable losses. Although the Bank monitors closely current and future credit risk exposures, no assurance can be given that the amount of NPLs will not increase and will not have a material effect on the Bank's capital adequacy ratio, its operations, and financial condition.

Implementation of Strategies

The Bank's ability to grow its revenue will partly depend on its ability to successfully implement its business strategies, which may expose the Bank to a number of risks and challenges, including, among others, the following:

- new and expanded business activities may have less growth or profit potential than the Bank anticipates, and there can be no assurance that new business activities will become profitable at the level the Bank desires or at all;
- the Bank's competitors may have substantially greater experience and resources for the new and expanded business activities; and
- economic conditions, such as rising interest rates or inflation, could hinder the Bank's expansion, particularly in the consumer loan industry.

In addition, new business endeavors may require knowledge and expertise which differ from those used in the current business operations of the Bank, including different management skills, risk management procedures, guidelines and systems, credit risk evaluation, monitoring and recovery procedures. The Bank may not be successful in developing such knowledge and expertise. The Bank's inability to implement its business strategy could materially and adversely affect the Bank's business, financial condition and results of operations.

Credit Risk

Credit risk is the risk that obligations will not be repaid on time and in full as contracted, resulting in a financial loss. It is the broadest category of risk in the Bank and is closely linked with other risk categories. Exposure to credit risk arises primarily from its lending activities.

Market Risk

Market risk is the risk that the Bank's earnings decline, either immediately or over time, as a result of a change in market factors. The level of market risk to which the Bank is exposed varies continually as a result of changing market conditions as well as the composition of the Bank's trading and non-trading portfolios.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk is a function of internal controls, information systems, employee integrity and operating processes. Operations risk has a very broad category that encompasses any risk not categorized as market or credit risk.

The Bank's operations are centralized in its Head Office in Makati. Although this is intended to promote efficiency, this set-up could also be a source of operational risk. The Bank mitigates this risk through its Business Continuity Program ("BCP"). It conducts regular BCP exercises and targets different recovery times per system. The Bank's heavy reliance on technology for its operations also presents operational risks.

Liquidity Risk

Liquidity Risk relates to the Bank's ability to generate sufficient cash or equivalents from internal or external sources, in a timely and cost-effective manner, to meet its commitments as they fall due. Mismanagement of liquidity will have quicker and more severe repercussions than errors in managing other risks. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

Reputational Risk

The Bank is exposed to the risk that fraud and other misconduct committed by employees or outsiders could occur. Such incidences may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash that flow through their systems. Any occurrence of such fraudulent events may damage the reputation of the Bank and may adversely affect its business, financial position, results of operations and prospects. In addition, failure on the part of the Bank to prevent such fraudulent actions may result in administrative or other regulatory sanctions by the BSP or other Government agencies, which may be in the form of suspension or other limitations placed on the Group's banking and other business activities. Although the Bank has in place certain internal procedures to prevent and detect fraudulent activities, such as a code of conduct, daily trading limits and compliance monitoring, these may be insufficient to prevent such occurrences from transpiring. There can be no assurance that the Bank will be able to avoid incidents of fraud that could materially and adversely affect the Bank's business, financial condition or results of operations.

Considerations Relating to the Philippine Banking Industry

The Philippine banking industry is highly competitive and increasing competition may result in declining margins in the Bank's principal businesses.

The Bank is subject to significant levels of competition from many other Philippine banks and branches of international banks, including competitors which in some instances have greater financial, capital resources, market share and brand name recognition than the Bank. The banking industry in the Philippines has, in recent years, been subject to consolidation and liberalization, including liberalization of foreign ownership regulations. According to the BSP, as of 31 December 2013, the universal and commercial banking sector consisted of 36 universal and commercial banks, 71 thrift banks, and 566 rural and cooperative banks.

In the future, the Bank may face increased competition from financial institutions offering a wider range of commercial banking products and services than the Bank and that have larger lending limits, greater financial resources and stronger balance sheets than the Bank. Increased competition may arise from:

(1) Other domestic Philippine banking and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
(2) Rural and thrift banks, which may successfully implement strategies targeting customers in the MSME sector;
(3) Foreign banks, due to, among other things, relaxed standards permitting foreign banks to open branch offices;
(4) Domestic banks entering into strategic alliances with foreign banks with significant financial and management resources; and
(5) Continued consolidation in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions.

There can be no assurance that the Bank will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for the Bank to continue to increase the size of its loan portfolio and deposit base, as well as cause increased pricing competition, which could have a material adverse effect on its growth plans, margins, results of operations and financial condition.

Philippine banks are generally exposed to higher credit risks and greater market volatility than banks in more developed countries.

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payment of principal and interest on loans and, in particular that, upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in developed countries due to:

(1) The greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;

(2) The vulnerability of the Philippine economy in general to a severe global downturn due to the dependence of the Philippine economy in general on remittances and exports for economic growth;
(3) The large foreign debt of the government and corporate sector, relative to the gross domestic product of the Philippines; and
(4) The volatility of interest rates and USD/₱ exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's financial condition, liquidity and results of operations. The average NPL ratios, exclusive of interbank loans, in the Philippine banking system were 3.0%, 2.6% and 2.8% for the years ended 31 December 2011, and 2012, 2013, respectively.

Philippine banks in general have exposure to the Philippine property market through holdings of real and other properties acquired.

As with other banks in the Philippines, the Bank has exposure to the Philippine property market due to the level of its real and other properties acquired ("ROPA") holdings. The Bank's ROPA (net of allowances for impairment and accumulated depreciation) amounted to ₱2.47 billion as of 31 December 2013, or 1.90% of the Bank's total assets. The Philippine property market is highly cyclical, and property prices in general have been volatile through the past decade, though an uptrend has been observed toward the end of 2013 owing in part to recent domestic economic and political developments. Property prices are affected by a number of factors, including, among other things, the supply of and demand for comparable properties, the rate of economic growth in the Philippines and political and economic developments.

There can be no assurance that an extended downturn in the property market will not occur, resulting in a significant decline in property values. Thus, there can be no assurance that the Bank will be able to recover all or most of the originally anticipated value of its ROPA in an eventual sale. Furthermore, the Bank is required under PFRS to recognize impairment losses on all ROPA, by reference to the difference between the carrying amount and the fair value less cost to sell. Accordingly, any extended downturn in the Philippine property sector could increase the level of the Bank's recognized impairment losses, reduce the Bank's net income and consequently adversely affect the Bank's business, financial condition and results of operations generally.

The Bank may experience difficulties due to the implementation of Basel III in the Philippines.

On January 15, 2009, the BSP issued Circular No. 639 covering the Internal Capital Adequacy Assessment Process ("ICAAP") which supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. The BSP requires banks to have in place an ICAAP that (i) takes into account not just the credit, market and operational risks but also all other material risks to which a bank is exposed (such as interest rate risk in the banking book, liquidity risk, compliance risk, strategic/ business risk and reputation risk); (ii) covers more precise assessments and quantification of certain risks (i.e. credit concentration risk); and (iii) evaluates the quality of capital. In 2011, the BSP issued BSP Circular 709, which aligns with the Basel Committee on Banking Supervision on the eligibility criteria on Additional Group Concern Capital and Tier 2 Capital to determine eligibility of capital instruments to be issued by Philippine banks/quasi-banks as Hybrid Tier 1 Capital and Lower Tier 2 Capital. Further, in January 2013, the BSP issued Circular No. 781 as the Basel III Implementing Guidelines on Minimum Capital Requirements, which took effect on January 2014, highlights of which include:

- adopting a new categorization of the capital base;
- adopting eligibility criteria for each capital category that is not yet included in Circular 709;
- as applicable, allowing the BSP to adopt regulatory deductions in Basel III;
- keeping minimum CAR at 10%, and prescribing:
    - minimum Common Equity Tier 1 (CET 1) ratio of 6.0%;

- minimum Tier 1 ratio of 7.5%; and
- capital conservation buffer of 2.5%;

- by January 1, 2014, rendering ineligible existing capital instruments as of December 31, 2010 that do not meet eligibility criteria for capital instruments under the revised capital framework; and
- by January 1, 2016, rendering ineligible regulatory capital instruments issued under Circulars No. 709 and 716 before the revised capital framework became effective.

These may result in an increase in the capital adequacy requirement applicable to the Bank. Unless the Bank is able to access the necessary amount of additional capital, any incremental increase in the capital requirement due to the implementation of ICAAP and Basel III, may impact the Bank's ability to grow its business and may even require the Bank to withdraw from or to curtail some of its current business operations, which could materially and adversely affect the Bank's business, financial condition and results of operations. There can also be no assurance that the Bank will be able to raise adequate additional capital in the future at all or on terms favorable to it. In addition, the implementation of Basel III may require the Bank to divest itself of certain non-allied undertakings. If the Bank is forced to sell all or a portion of certain subsidiaries or associates, its business, financial condition or results of operations could be adversely affected. There can be no assurance that the Bank will be able to meet the requirements of Basel III as implemented by the BSP. In addition, the limitations or restrictions imposed by the BSP's implementation of Basel III could materially and adversely affect the Bank's business, financial condition and results of operations.

As of 31 December 2013, the Bank's CAR was 16.92% and its Tier 1 ratio, net of BSP's required deductions, was 13.81%.

The Bank may have to comply with strict regulations and guidelines issued by banking regulatory authorities in the Philippines, including the BSP, the BIR and international bodies, including the FATF.

The Bank is regulated and supervised principally by, and have reporting obligations to, the BSP. The Bank is also subject to the banking, corporate, taxation and other regulations and laws in effect in the Philippines, administered by agencies such as the Bureau of Internal Revenue of the Philippines (the "BIR") and the Anti-Money Laundering Council ("AMLC"), as well as international bodies such as the Financial Action Task Force ("FATF"). In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and added transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing the capital adequacy of banks in the Philippines.

Institutions that are subject to the AMLA are required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for a minimum of ten years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

The Bank's failure to comply with current or future regulations and guidelines issued by regulatory authorities in the Philippines could have a material adverse effect on the Bank's business, financial condition and results of operations. As part of the administrative sanctions, the AMLC may impose sanctions, monetary penalties, warning or reprimand upon any covered person, its directors, officers, employees and other persons for violation of the AMLA, its implementing rules and regulations, or for failure to comply with AMLC orders, resolutions or issuances. The monetary penalties are in amounts as may be determined by the AMLC, taking into consideration all relevant circumstances, but not exceeding ₱500,000 per violation. There are penalties for, among other offences, failure to keep records, malicious reporting and breach of confidentiality.

The Bank's ability to assess, monitor and manage risks inherent in its business is limited by the quality and timeliness of available data.

The Bank is exposed to a variety of risks including credit, market, foreign exchange and operational risks. The effectiveness of the Bank's risk management, in particular its credit risk management, is limited by the quality and timeliness of available data in the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. Limitations in the Bank's risk management systems may result in the Bank granting loans or taking positions that expose the Bank to significant credit risks or otherwise result in the Bank being over exposed to interest rate, liquidity, foreign exchange rate and other risks.

Considerations Relating to the Philippines

Substantially all of the Bank's business activities are conducted in the Philippines and substantially all of its assets are located in the Philippines, which exposes the Bank to risks associated with the Philippines, including the performance of the Philippine economy.

The Bank derives substantially all of its revenues and operating profits operations from the Philippines and its business is generally dependent on the state of the Philippine economy. As a result of the Asian financial crisis that began in 1997, the Philippine economy went through a sharp downturn in the late 1990s. This downturn was further exacerbated during 2000 to 2001 by the political crisis resulting from the impeachment proceedings against, and the subsequent resignation of, former President Joseph Estrada. Most recently, the global financial downturn also resulted in a general slowdown of the global economy in 2008 and 2009. The Philippine economy recorded a 2013 GDP growth of 7.2%, which currently exceeds the government's targets and analysts' expectations. The economy continues to be driven by the services and industry sector, higher government expenditures, and a benign inflation environment.

In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of its currency and the imposition of exchange controls. In addition, global financial, credit and currency markets have, since the second half of 2007, experienced, and may continue to experience, significant dislocations and liquidity disruptions. There is significant uncertainty as to the potential for a continued downturn in the U.S. and global economy, which would be likely to cause economic conditions in the Philippines to deteriorate.

Other factors that may adversely affect the Philippine economy include:

(1) Reduced business, industrial, manufacturing or financial activity in the Philippines or elsewhere in Southeast Asia;
(2) Scarcity of credit or other financing available to the government, corporations or individuals in the Philippines;
(3) Fluctuations in currency exchange rates and interest rates or prolonged periods of inflation or deflation;
(4) A downgrade in the long-term foreign and local currency sovereign credit ratings of the Philippines or the related outlook for such ratings;
(5) Significant changes to the government's economic, social or tax policies;
(6) Natural disasters, including tsunamis, typhoons, earthquakes, fires, floods and similar events;
(7) Political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
(8) Other regulatory, political or economic developments in or affecting the Philippines.

Any future deterioration in economic conditions in the Philippines due to these or other factors could materially and adversely affect the Bank's borrowers and contractual counterparties. This, in turn, could materially and adversely affect the Bank's financial position and results of operations, including the Bank's ability to grow its asset portfolio, the quality of the Bank's assets and its ability to implement the Bank's business strategy. Therefore, changes in the conditions of the Philippine economy could materially and adversely affect the Bank's business, financial condition or results of operations.

The Bank's business may be affected by political or social instability in the Philippines

The Philippines has from time to time experienced political, social, economic and military instability. For example, several key officials of the Philippine government are currently under investigation on corruption charges stemming from allegations of misuse of public funds. Although there has been no major public protest or disruption caused by these investigations, there can be no assurance that the political environment in the Philippines will continue to be stable. The government of President Benigno S. Aquino III has taken steps toward economic reforms and good governance in line with its campaign against graft and corruption, the latter demonstrated by the filing of high-profile tax evasion cases and graft and corruption charges against some prominent officials of the previous administration. Allegations of tax evasion and corruption with respect to some government officials may result in political and social uncertainty in the Philippines and may adversely affect economic activity within the country.

There is also no assurance or that the government will continue to implement or adopt economic policies conducive to sustained economic growth or which do not impact adversely on the current regulatory environment for the banking industry. Any change in the administration's economic and development policies could have a material and adverse effect on the Bank's business, financial condition and results of operations.

The Philippines has been subject to a number of terrorist attacks since 2000. In recent years, the Philippine army has also been in conflict with the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network and has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. Moreover, isolated bombings have taken place in the Philippines in recent years, mainly in cities in the southern part of the country. On September 9, 2013, 300 armed followers of the Moro National Liberation Front ("MNLF") infiltrated several coastal villages in Zamboanga City. On September 28, 2013, the government declared the end of military operations in Zamboanga City although the leader of the MNLF forces remains at large. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy.

There have also been a number of violent crimes in the Philippines, including the August 2010 incident involving the hijacking of a tour bus carrying 25 Hong Kong tourists in Manila, which resulted in the deaths of eight tourists. High profile violent crimes have, in the past, had a material adverse effect on investment and confidence in, and the performance of, the Philippine economy.

As with several other areas in Asia, certain portions of Philippine territory are subject of international boundary issues with neighboring countries. While current tensions do not appear to have directly affected the Bank and its business, there can be no assurance that these will remain unaffected by territorial disputes.

No assurance can be given that the future political or social environment in the Philippines will be stable or that current or future governments will adopt economic policies conducive to sustaining economic growth. Political or social instability in the Philippines could negatively affect the general economic conditions and operation environment in the Philippines, which could have a material impact on the Bank's business, financial position, and results of operation.

Uncertainties and instability in global market conditions could adversely affect the Bank's business, financial condition, and results of operations.

The ongoing global financial crisis is widely believed to have begun in August 2007, when the bursting of the United States housing bubble and high default rates of "subprime" mortgages caused a loss of confidence by investors in the value of securitized mortgages in the United States and precipitated a liquidity crisis. The crisis entered an acute phase in September 2008, beginning with the bankruptcy of American investment bank Lehman Brothers Holdings Inc. This phase was marked by failures of prominent American and European banks, and efforts by the American and European governments to rescue their distressed financial institutions. Market sentiment also deteriorated rapidly and financial panic ensued, characterized by widespread panic selling by investors in almost all asset classes. The prolonged European debt crisis, turmoil in the Middle East (causing oil price increases) and the fiscal concerns in the US and Japan were some of the recent challenges in the global economy. These aforementioned factors affected specific sectors in the local economy, particularly the export industry which performed slower-than-expected because of slugging global demand.

These and other related events have had a significant impact on the global capital markets as a whole, and may constrain the ability of Philippine issuers, including the Bank and its corporate customers, to raise new capital or funding and to refinance existing debt. Furthermore, to the extent that the credit of the Bank's borrowers is adversely affected by recent market conditions, the quality of the Bank's assets could deteriorate significantly and could adversely affect the Bank's business and results of operations.

The occurrence of natural catastrophes such as flooding, typhoons and earthquakes or power outages may materially disrupt the Bank's operations.

The Philippines has experienced a number of major natural catastrophes in recent years including typhoons, volcanic eruptions, earthquakes, mudslides, droughts, storm surges and floods related to the El Niño and La Niña weather events. Natural catastrophes may impair the economic conditions in the affected areas, as well as the overall Philippine economy, and disrupt the Bank's operations in these areas. The Philippines has also experienced power outages, both from insufficient power generation and from disruptions such as typhoons. These types of events may materially disrupt and adversely affect the Bank's business and operations.

The sovereign credit ratings of the Philippines may adversely affect the Bank's business.

The Philippines recently cemented its position as an Investment Grade credit. In October 2013, Moody's Investor Services ("Moody's") upgraded the Philippines' rating from Ba1 to Baa3, with a positive outlook. In May 2013, Standard & Poor's ("S&P") raised the Philippines' long-term foreign currency denominated debt rating by one notch to BBB- from BB+. The rating upgrade by S&P came shortly after Fitch Ratings ("Fitch") upgraded the Philippines to BBB- from BB+ in March 2013. In their announcements, the rating agencies cited improvements in governance, external finances and fiscal management for the reasons behind their decision. The sovereign ratings of the Government may directly affect companies resident in the Philippines, as international credit rating agencies issue credit ratings by reference to that of the sovereign. No assurance can be given that international credit rating agencies will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including the Bank. Any of such downgrades could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Bank, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

Any future changes in PFRS may affect the financial reporting of the Bank's business.

PFRS continues to evolve as standards and interpretations promulgated subsequent to December 31, 2013 come into effect. PFRS 9, the local adoption of International Financial Reporting Standards ("IFRS") 9 Financial Instruments, originally issued in 2009, reflects the first and third phases of the three-phase improvement project by the International Accounting Standards Board ("IASB") to replace International Accounting Standards ("IAS") 39 Financial Instruments: Recognition and Measurement. Phases 1 and 3 of the project apply to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. It requires entities to classify and subsequently measure financial assets at either amortized cost or fair value on the basis of both (a) the entities' business model for managing the financial assets and (b) the contractual cash flow characteristics of the financial assets. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. PFRS 9 also requires enhanced disclosures to help the users of financial statements better understand the risks and the likely cash flows from the financial assets. Guidelines on the early adoption of PFRS 9 by banks and other BSP-supervised financial institutions of PFRS 9 were approved by the BSP in 2011 under Circular No. 708 s. 2011.

The latest amendment to PFRS 9, issued in 2013, contains no stated effective date and includes consequential amendments which remove the mandatory effective date of January 1, 2015 but allows each version of the standard to be available for early application.

Work on the second phase, which relate to impairment of financial instruments is still ongoing.

An increase in interest rates could decrease the value of the Bank's securities portfolio and raise the Bank's funding costs.

Domestic interest rates have remained low since 2009, with the monetary policy directed towards stimulating the economy. The BSP has kept its key policy rates relatively steady at 3.5% to 4.0% for overnight borrowing and 5.5% to 7.0% for overnight lending since January 2009. Nevertheless, interest rates are expected to increase in the future as price pressures begin building as a result of strong economic growth. In the Monetary Board's recent meeting last 27 March 2014, it kept policy rates steady at their record lows while raising the reserve requirement by 1.0% to guard against potential risks to financial stability arising from continued strong liquidity growth and credit expansion.

The Bank realizes income from the margin between income earned on its assets and interest paid on its liabilities. As some of its assets and liabilities are re-priced at different times, the Bank is vulnerable to fluctuations in market interest rates. As a result, volatility in interest rates could have a material adverse effect on the Bank's financial position, liquidity and results of operations.

An increase in interest rates could lead to a decline in the value of securities in the Bank's portfolio. A sustained increase in interest rates will also raise the Bank's funding costs without a proportionate increase in loan demand (if at all). Rising interest rates will therefore require the Bank to re-balance its assets and liabilities in order to minimize the risk of potential mismatches and maintain its profitability.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

Financial statements of Philippine banks are prepared in accordance with PFRS which requires the use of certain critical accounting estimates and judgments. Management of institutions are to use their own judgment to come up with estimates on certain balance sheet and income statement accounts such as, but not limited to, credit losses on loans and receivables; fair value of derivatives; impairment of available-for-sale and held-to-maturity securities; and realization of deferred income tax assets among others.

With the recent approval by the BSP of PFRS 9, which is the local adoption of IFRS 9, entities can already adopt the PFRS 9 even prior to the mandated adoption on 1 January 2013. PFRS 9 provides for certain rules that are significantly different from the current accounting requirements and proposes additional requirements that the Bank currently does not apply.

There is, therefore, no assurance on the impact that PFRS 9 will have on the Bank's financial statements in the future.

Considerations Relating to the Notes

The Notes may be subject to Loss Absorption Measures.

Investors may lose all or part of their investment upon the occurrence of a Non-Viability Trigger Event or the closure of the Issuer.

Generally, a Non-Viability Trigger Event is deemed to have occurred when the Issuer or Metropolitan Bank & Trust Company, the parent company of the Issuer, is considered non-viable as determined by the BSP. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or inability of the Issuer or Metropolitan Bank & Trust Company to continue business (closure) or any other event as determined by the BSP, whichever comes earlier.

Upon the occurrence of a Non-Viability Write-down, the full principal amount of the Notes may be permanently written down to the extent required by the BSP, including to zero, and the Notes may altogether be cancelled. As a result, the Holders may lose the entire amount of their investment in the Notes irrespective of whether the Issuer has sufficient assets available to settle the claims of the Holders under the Notes, in bankruptcy proceedings or otherwise. Additional Tier 1 ("AT1") capital instruments shall be utilized first before Tier 2 capital instruments are written-off or written down, until the viability of the Issuer is re-established. In the event the Issuer does not have AT1 capital instruments, then the write-down shall automatically apply to Tier 2 capital, including the Notes.

Any such Non-Viability Write-down will be irrevocable and the Holders will, upon the occurrence of a Non-Viability Write-down, not (i) receive any shares or other participation rights of the Issuer or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Issuer or any other member of the Issuer, or (ii) be entitled to any subsequent write-up or any other compensation in the event of a potential recovery of the Issuer or its subsidiaries.

A Non-Viability Event shall occur if the BSP notifies the Issuer in writing that it has determined that a:

(a) write-down of the Notes and other capital instruments of the Issuer is necessary because, without such Write-Down, the Issuer or Metropolitan Bank & Trust Company would become non-viable;
(b) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Issuer or Metropolitan Bank & Trust Company would become non-viable; or
(c) write-down of the Notes and other capital instruments of the Issuer is necessary because, as a result of the closure of the Issuer, the Issuer or Metropolitan Bank & Trust Company has become non-viable.

If a Non-Viability Trigger Event occurs and is continuing, the Issuer shall, subject to certain procedures and subject to prevailing laws and regulations:

(i) cancel any Interest which is accrued and unpaid to the relevant Loss Absorption Effective Date; and

(ii) *pari passu* with any other Tier 2 Loss Absorbing Instruments (where possible) irrevocably (without the need for the consent of Holders or the Public Trustee), reduce the then prevailing principal of each Note by the relevant Write-Down Amount, in each case, after having written-down to zero, or converted into common equity of the Issuer, any Tier 1 Loss Absorbing Instruments (where possible).

A Write-Down will have the following effects: (i) to reduce the claim of Holders of the Notes in liquidation; (ii) to reduce the amount payable to Holders of the Notes when a call option is exercised or when the Notes mature; and (iii) to reduce distribution payments on the Notes.

The occurrence of a Non-Viability Trigger Event may be inherently unpredictable and may depend on a number of factors which may be outside of the Issuer's control.

The occurrence of a Non-Viability Trigger Event is dependent on a determination by the BSP that a (a) Write-Down is necessary because, without such Write-Down, the Issuer or Metropolitan Bank & Trust Company would become non-viable, or (b) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Issuer or Metropolitan Bank & Trust Company would become non-viable, or (c) Write-Down is necessary because, as a result of the closure of the Issuer, the Issuer or Metropolitan Bank & Trust Company has become non-viable. As a result, the BSP may require or may cause a Write-Down in circumstances that are beyond the control of the Issuer and with which the Issuer agrees. Because of the inherent uncertainty regarding the determination of whether a Non-Viability Event exists, it will be difficult to predict when, if at all, a Write-Down will occur. Accordingly, the trading behavior in respect of the Notes, which have the non-viability loss absorption feature, is not necessarily expected to follow trading behavior associated with other types of securities. Any indication that the Issuer is trending towards a Non-Viability Trigger Event could have a material adverse effect on the market price of the relevant Notes.

Certain actions relating to the Notes require prior approval of the BSP.

Certain actions relating to the Notes, such as redemptions, purchase of Notes in the open market and payments of principal, are subject to the prior approval of the BSP. There is no assurance that such approval will be obtained in a timely manner, if at all. Neither the Issuer nor the Lead Manager makes any such assurance that such approval will be obtained in a timely manner, if at all.

All redemption rights are at the Issuer's discretion and the timing of redemption of the Notes may not correspond with the Holders' expectations or preferences.

The "Terms and Conditions of the Notes" provide that the Notes are redeemable at the Issuer's option, in whole but not in part, on the Call Option Date or any Interest Payment Date thereafter.

In addition, upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the Issuer may, upon prior approval of the BSP and at least a 30-Banking Day prior written notice to the Holders on record, redeem all and not less than all of the outstanding Notes prior to the stated maturity by paying the Holder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100% of the face value of the Note plus accrued Interest at the Interest

Rate relating to the then current Interest Period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 101% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption (the Redemption Option Date).

The date on which the Issuer elects to redeem the Notes may not accord with the preference of individual Holders. This may be disadvantageous to Holders in light of market conditions or the individual circumstances of the Holder of Notes. A Holder's ability to realize value at a certain time may be limited to selling the Notes into the secondary market. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Notes.

Subordination of the Notes; limited right to accelerate

The Notes will constitute direct, unconditional, unsecured, and subordinated obligations of the Issuer. The Notes will at all times rank *pari passu* and without any preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Issuer.

In case of an order being made, or an effective resolution being passed, for the liquidation or winding-up of the Issuer, the rights and claims of the Holders against the Issuer in respect of or arising under (including any damages awarded for breach of any obligation under) the Notes shall generally rank junior to the claims of depositors and general creditors of the Issuer.

Therefore, if the Issuer were wound up, liquidated or dissolved, the Issuer's liquidator would first apply assets of the Issuer to satisfy all rights and claims of Holders of senior obligations. If the Issuer does not have sufficient assets to settle claims of Holders of senior obligations in full, the claims of the Holders under the Notes will not be settled and, as a result, the Holders will lose the entire amount of their investment in the Notes. The Notes will share equally in payment with the parity obligations if the bank does not have sufficient funds to make full payments on all of them, as applicable. In such a situation, Holders could lose all or part of their investment.

The Notes are (i) not a deposit and are not insured by the Philippine Deposit Insurance Corporation, (ii) subordinated to the claims of depositors and ordinary general creditors of the bank, (iii) unsecured and not covered by the guaranty of the Issuer, the Joint Lead Arrangers, any of their subsidiaries and affiliates, or of the National Government, and (iv) ineligible as collateral for a loan granted by the Issuer, its subsidiaries and affiliates.

The Issuer is not prohibited from issuing further debt which may rank *pari passu* with or senior to the Notes.

There is no restriction on the amount of debt that the Issuer may issue that ranks senior to the Notes or on the amount of securities that it may issue that rank *pari passu* with the Notes. The issue of any such debt or securities may thus reduce the amount recoverable by investors upon the Issuer's bankruptcy. If the Issuer's financial condition were to deteriorate, the Holders could suffer direct and materially adverse consequences, including suspension of interest and reduction of interest and principal and, if the Issuer were liquidated (whether voluntarily or involuntarily), the Holders could suffer loss of their entire investment.

Limitation as to Use as Collateral

The Notes may not be used as collateral for any loan made by the Issuer or any of its subsidiaries or affiliates. The Holders are not allowed to set off any amount that may be due to the Issuer against the Notes.

Liquidity for the Notes

Holders may not redeem or pre-terminate the Notes before Maturity Date. Holders may, however, negotiate or transfer the Notes to purchasers who are not Prohibited Holders. In accordance with the Manual of Regulations for Banks, as amended, negotiations/transfers from one Holder to another do not constitute pre-termination. Any change in the interpretation of current tax laws subjecting the Notes to deductions or withholdings of whatever nature shall, however, be for the account of the Holder.

The liquidity for the Notes will depend in part upon the activity of market makers in developing a trading market for the Notes. MIB will be the Market Maker for the Notes. The Issuer also intends to list the Notes on the PDEx. In the event of such listing of the Notes in the PDEx, the services of the Market Maker as such will cease and secondary trading of the Notes, including a limited form of market making thereon, would be conducted on the PDEx (through its trading participants) in accordance with the rules and regulations, including but not limited to guidelines on minimum trading lot and record dates, and subject to such fees of, PDEx and other providers necessary for the completion of such trades. There can be no assurance that the Notes will be listed or continue to be listed on the PDEx or on any other exchange. No assurance can be given that an active trading market for the Notes will develop.

Transfers only through Market Maker

While the Notes are not yet listed in the PDEx, all transfers of the Notes must be made through a Market Maker. Consequently, the parties to a transfer may be subject to the guidelines of the relevant Market Maker and the payment to the relevant Market Maker and the Registrar of any reasonable fees. There is no assurance that the secondary trading of the Notes may not be affected given these restrictions.

The Issuer intends to list the Notes in PDEx for secondary market trading. Upon listing of the Notes with PDEx, investors must course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. These Settlement Rules and Guidelines include guidelines on minimum trading lots and record dates. The secondary trading of Notes in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades. The PDEx rules and conventions are available in the PDEx website (www.pdex.com.ph). An investor Frequently Asked Questions ("FAQ") discussion on the secondary market trading, settlement, documentation and estimated fees are also available in the PDEx website.

As with other fixed income securities, the Notes trade at prices higher or lower than the initial offering price due to prevailing interest rates, the Issuer's operations, and the overall market for debt securities, among others. It is possible that a selling Holder would receive sales proceeds lower than his initial investment should a Holder decide to sell his Notes prior to maturity.

Taxation of the Notes

If, because of new or changes in the interpretations or conventions regarding current taxes, such that any payments of principal and/or interest under the Notes shall be subject to deductions or withholdings for or on account of any present taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the "Taxes"), then such Taxes shall be for the account of the Holder concerned, and if the Issuer shall be required by law or regulation to deduct or withhold such Taxes, then the Issuer shall make the necessary withholding or deduction for the account of the Holder concerned; provided, however, that all sums payable by the Issuer to tax-exempt persons shall be paid in full without deductions for Taxes or government charges, subject to the submission by the relevant Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Registrar. The BIR has also issued Revenue Memorandum Circular No. 8-2014 (RMC 8-2014) which applies to exemptions from withholding tax in general. Under BIR

RMC 8-2014, taxpayers claiming exemption from withholding taxes shall be required by the concerned withholding agent to submit a copy of a valid, current and subsisting tax exemption certificate or ruling, as per existing administrative issuances and any issuance that may be issued from time to time, before payment of related income. If the taxpayer fails to submit the said proof of tax exemption, he or she shall be subjected to the payment of appropriate withholding taxes due on the transaction.

While the income from the Notes may be considered tax exempt under BIR Revenue Regulation No. 14-2012 (RR 14-2012) (although no categorical ruling has been issued by the BIR to this effect), there is no assurance that the BIR will not issue clarificatory regulations making RMC 8-2014 applicable to long term deposit or investment certificates. In such an event, it may be difficult for qualified individual Holders to avail of the tax-exempt nature of the Notes in accordance with RR 14-2012. In such an event, the Issuer may be compelled to apply the prescribed rates of withholding tax and proceed withhold the necessary tax due on the Notes based on current regulations.

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- understand that the Notes carry a Loss Absorption Measure such that they could lose their entire investment in the event that the Notes are written-off;
- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments and investors may purchase such instruments as a way to manage risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

There are limited remedies for non-payment under the Notes.

Notwithstanding any of the provisions relating to events of default, the right to institute Winding-Up Proceedings is limited to circumstances where payment has become due and the Issuer fails to make the payment when due. The only remedy against the Issuer available to the Public Trustee or (where the Public Trustee has failed to proceed against the Issuer as provided in the "Terms and Conditions of the Notes") any Holder for recovery of amounts in respect of the Notes following the occurrence of a payment default after any sum becomes due in respect of the Notes will be instituting Winding-Up Proceedings and/or proving and/or claiming in Winding-Up in respect of any of the payment obligations arising from the Notes.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, after deducting fees, commissions, and other related expenses will be utilized to strengthen the Bank's capital base and allow it to expand and strengthen its banking operations.

CAPITALIZATION OF THE BANK

The following table sets out the capitalization of the Bank and indebtedness of the Bank (i) as of 31 December 2013, and (ii) as adjusted for the proposed issuance of the Notes. The following selected financial information should be read together with other portions of this Offering Circular.

Capitalization of the Bank

(In ₱)	As of 31 December 2013	As of 31 December 2013 (Unaudited and Adjusted Including the Notes currently being issued)
Liabilities		
Deposit liabilities		
Demand	9,050,826,107	9,050,826,107
Savings	16,181,291,134	16,181,291,134
Time	81,286,386,669	81,286,386,669
	106,518,503,910	106,518,503,910
Subordinated Notes due 2022	2,972,366,024	2,972,366,024
Subordinated Notes due 2024 (currently being issued)	-	2,970,868,692
Treasurer's, Cashier's and Manager's Checks	1,110,517,230	1,110,517,230
Accrued Taxes, Interest and Other Expenses	1,099,730,994	1,099,730,994
Income Tax Payable	132,339	132,339
Other Liabilities	2,061,548,773	2,061,548,773
Total liabilities	113,762,799,270	116,733,667,962
Equity		
Common Stock	2,402,524,910	2,402,524,910
Capital Paid in excess of Par Value	2,818,083,506	2,818,083,506
Surplus	10,205,364,827	10,205,364,827
Surplus Reserves	1,035,275,317	1,035,275,317
Net Unrealized Gain on Available-for-Sale Investments	22,289,515	22,289,515
Equity in Net Unrealized Gain on Available-for-Sale Investments of an Associate	25,000	25,000
Remeasurement Losses on Retirement Plan	(178,577,793)	(178,577,793)
Equity in Remeasurement Losses on Retirement Plan of a Joint Venture	(479,690)	(479,690)
Equity in Cash Flow Hedge Reserve of an Associate	(335,158)	(335,158)
Cumulative Translation Adjustment	(41,094,955)	(41,094,955)
Total equity	16,263,075,479	16,263,075,479
Total capitalization and indebtedness	**130,025,874,749**	**132,996,743,441**

Notes:

(1) Par value P10 per share; authorized: 425,000,000 shares; as at 31 December 2013, 240,252,491 shares of common stock were issued and outstanding.

(2) Since 31 December 2013, there has been no material change in the capitalization of the Bank.

TERMS AND CONDITIONS OF THE NOTES

The following do not purport to be a complete listing of all the rights, obligations, and privileges of the Notes. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are encouraged to carefully review the Agreements, other information in this Offering Circular, and all amendments thereto.

Issuer…………………..	Philippine Savings Bank
Arranger………………..	ING Bank N.V., Manila Branch
Notes	P3,000,000,000.00 aggregate principal amount of 5.50% Fixed Rate Unsecured Subordinated Notes qualifying as Tier 2 Capital issued by the Issuer under these Terms and Conditions.
Issue Size……………..	P3,000,000,000.00
Denomination	The Notes will be offered in minimum denominations of P500,000.00 each and increments of P100,000.00 beyond the minimum. The Notes will be represented by a Master Note which will be deposited with the Public Trustee.
Regulations……….......	The General Banking Law of 2000, the New Central Bank Act, *Bangko Sentral ng Pilipinas* ("BSP") Memorandum to All Banks and Non-Bank Financial Institutions dated 17 February 2003 and BSP Circular No. 280 (2001) on the issuance of unsecured subordinated debt instruments eligible as Tier 2 capital, Circular 709 (Series of 2011) on the amendment of the risk-based capital adequacy framework for banks/quasi-banks on the definition of qualifying capital instruments, Circular No. 781 (Series of 2013) on the Basel III implementing guidelines on minimum capital requirements, Circular No. 786 (Series of 2013) and Circular No. 826 (Series of 2014) on risk disclosure requirements for the loss absorbency features of capital instruments; Sections X115, X116, and X119 of the Manual of Regulations for Banks and other related Circulars and issuances, as may be amended from time to time.
Issue Price	100% of the face value of each Note.
Issue Date	May 23, 2014, when the Notes are issued by the Issuer to the Holders, or such earlier or later date as the Issuer or Arranger may agree in writing.
Initial Interest Rate	5.50% per annum, payable to the Holder for the period from and including the Issue Date up to, but excluding, the last day of the twenty-first (21st) Interest Period (if the Call Option is not exercised) or up to, but excluding, the Call Option Date (if the Call Option is exercised).
Initial Spread	1.4438% per annum (being the Initial Interest Rate minus the Initial Benchmark Rate).
Interest	Interest on the Notes will accrue for each Interest Period at the Initial Interest Rate (or Reset Interest Rate) multiplied by the principal amount of the Note calculated by the Paying Agent on a 30/360-day year basis. Interest will be paid quarterly in arrears. Each Issue of the Notes will bear interest on its principal amount from and including the issue date thereof, up to but excluding the Call Option Date or Maturity Date (as the case may be). In the event the Issuer does not exercise its Call Option on the Call Option

	Date, interest shall accrue on the Notes at the Reset Interest Rate until Maturity Date.
Interest Payment Dates	On the August 23; November 23; February 23 and May 23 of each year until Final Maturity Date. If the Interest Payment Date is not a Business Day, interest will be paid on the next succeeding Business Day, without adjustment to the amount of interest to be paid.
Interest Periods	A period from and including an Interest Payment Date to but excluding the next Interest Payment Date, provided that the first Interest Period shall commence on and include the Issue Date and the last Interest Period shall end on but exclude the Interest Payment Date falling on the Maturity Date.
Reset Interest Rate	Benchmark as of Reset Date plus the Initial Spread, payable to the Holders in lieu of the Initial Interest Rate beginning on the twenty-second (22nd) Interest Period up to the last Interest Period in the event that the Issuer does not exercise the Call Option or Redemption Option.
Reset Date	August 23, 2019 which is the last day of the twenty-first (21st) Interest Period.
Initial Benchmark Rate	Prevailing Philippine Dealing System Treasury Fixing ("PDST-F") 5-year treasury securities benchmark rate displayed under the heading "Bid Yield" as published on the PDEx Page (or such successor page) of Bloomberg (or such successor electronic service provider) at approximately 11:30 a.m., Manila time on the date to be mutually agreed upon between the Issuer and the Arranger (the Pricing Date).
Benchmark as of Reset Date	Prevailing PDST-F 5-year treasury securities benchmark rate displayed under the heading "Bid Yield" as published on the PDEx Page (or such successor page) of Bloomberg (or such successor electronic service provider) at approximately 11:30 a.m., Manila time on the Banking Day immediately prior to the Reset Date. If there is no rate appearing on the PDEx Page under the heading ''Bid Yield'' as of 11:16 am, Manila time, on the Banking Day immediately prior to the Reset Date, the Public Trustee will request appropriate quotes for bid yields for a five (5)-Year FXTN from four reference banks (which shall be selected by the Public Trustee) and will determine the arithmetic mean of these bid yields (rounded upwards, if necessary, to the nearest one-sixteenth of one per cent) provided that at least three rates are so quoted.
Redemption	Unless previously redeemed pursuant to the exercise of the Issuer's Call Option, the Notes will be redeemed on Maturity Date at the Maturity Value. The Notes may not be redeemed at the option of the Holders.
Maturity Date	Unless previously redeemed, purchased or cancelled, up to ten years and three months from the Issue Date at which date the Notes will be redeemed at their Maturity Value; Provided, that if such date is declared to be a non-Business Day, the Maturity Date shall be the next succeeding Business Day. Recognition of the Notes in regulatory capital in the remaining five (5) years before maturity will be amortized on a straight line basis.
Maturity Value	The Issue Price plus unpaid accrued Interest as of but excluding the Maturity Date.
Title	Legal title to the Notes shall be evidenced by the Registry, which shall be

	the official registry and best evidence of ownership and all other information regarding ownership of the Notes. Following receipt from the Selling Agents (including the Issuer and FMIC in their capacity as Limited Selling Agents) or Market Maker, as the case may be, of a Purchase Advice evidencing the purchase of Notes by the Holders, a Registry Confirmation will be issued by the Registrar in favor of the said Holders to evidence the registration of such Notes in their names in the Registry.
Transferability	Subject to the conditions on Taxation and Secondary Trading, transfers of the Notes to any person other than the Issuer prior to Maturity Date shall not constitute pre-termination. Transfer from a Holder to a transferee of a different tax status can only be effected on an Interest Payment Date. Any negotiation or transfer of the Notes prior to Maturity Date, however, may be subjected to withholding tax which could affect the tax treatment of the transferor and transferee's income from the Notes.
Qualification Determination	Each Selling Agent and Limited Selling Agent (in the case of initial issuance of the Notes) and each Market Maker (in the case of secondary trading of the Notes) shall verify the identity and other relevant details of each investor and ascertain that the proposed holder or transferee of a Note is compliant with the provisions of BSP Circular No. 786 (Series of 2013) and BSP Circular No. 826 (Series of 2014), and is not a Prohibited Holder. In the event that the Notes are listed on PDEx, the obligation to verify the identity and other relevant details of each investor and ascertain that the proposed holder or transferee of a Note is compliant with the provisions of BSP Circular No. 786 (Series of 2013) and BSP Circular No. 826 (Series of 2014), and is not a Prohibited Holder shall be performed by the trading participants of PDEx. Final determination shall, however, rest with the Issuer. The Holder shall immediately submit any and all information reasonably required by the Selling Agents, Limited Selling Agents, and/or Market Makers with respect to the actions and documents required under the provisions of BSP Circular No. 786 (Series of 2013) and BSP Circular No. 826 (Series of 2014) and the qualification of the proposed holder or transferee in order to determine that such Holder or transferee is not a Prohibited Holder.
Closing of Registry	The Registrar shall not register any transfer or assignment of the Notes for a period of two (2) Business Days preceding the due date for any payment of interest on the Notes, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the Notes, or register the transfer or assignment of any Notes previously called for redemption. The Registrar will treat the person in whose name the Notes is registered immediately before the relevant closed period as the owner of such Notes for the purpose of receiving distributions pursuant to these Terms and Conditions and for all other purposes whatsoever, and the Registrar shall not be affected by any notice to the contrary.
Secondary Trading	All secondary trading of the Notes shall be coursed through the Market Maker referred to in the same Regulations, or effected using the trading facilities of PDEx, as applicable, subject to compliance with the provisions of the BSP Rules, specifically on BSP Circular No. 786 (Series of 2013) and BSP Circular No. 826 (Series of 2014), the payment by the Holder of the proper fees to the Market Maker and the Registrar. Any transfer between investors of different tax status with respect to the Issue shall only be effective on an Interest Payment Date. Transfers shall be subject to the procedures of the Registrar and PDEx, including but not limited to the guidelines on minimum trading lot and record dates.

The Issuer intends to list the Notes in PDEx for secondary market trading. Upon listing of the Notes with PDEx, investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and shall settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. The secondary trading of Notes in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades.

In case of a transfer or assignment deemed by the Issuer as a pre-termination, solely for withholding tax purposes, the transferor Holder shall be liable for the resulting tax due on the entire interest income earned on the Notes (if any), based on the holding period of such Notes by the transferor Holder and the amount equal to the final withholding tax, if any, will be deducted from the purchase price due to it. Thereafter, the interest income of a transferee Holder who is an individual shall not be treated as income from long-term deposit or investment certificates, unless the Notes has a remaining maturity of at least 5 years.

Transfers or assignments deemed by the Issuer as pre-termination for withholding tax purposes means any transfer or assignment which: (a) is made by a Holder who is a citizen, resident individual, non-resident individual engaged in trade or business in the Philippines, or a trust (subject to certain conditions); (b) under the Regulations, is not considered a pre-termination of the Notes; and (c) under relevant tax laws or revenue regulations, will result in the interest income on the Notes being subject to the graduated tax rates imposed on long-term deposit or investment certificates on the basis of the holding period of the investment instrument.

No transfer or assignment of the Notes shall be recorded in the Registry unless the Issuer (or its duly authorized agent) has certified that the amount representing the tax due or arising from any such transfer or assignment has been paid.

Non-Preterminability

The Notes shall not be redeemable or terminable at the option of the Holder before Maturity Date, unless otherwise expressly provided herein. Subject to the conditions on Taxation and Secondary Trading, transfers from one Holder to another do not constitute pre-termination.

Call Option

Provided a Non-Viability Trigger Event has not occurred and subject to the Regulations, the Issuer shall have the option (but not the obligation), upon securing all required regulatory approvals, to redeem the Notes as a whole, but not in part, in the following circumstances:

(a) at the Call Option Amount, on the Call Option Date, subject to the prior approval of the BSP and the compliance by the Issuer with the Regulations and prevailing requirements for the granting by the BSP of its consent therefor, including (i) the capital adequacy ratio of the Issuer is well above the required minimum ratio after redemption; or (ii) the Note is simultaneously replaced, on or prior to the Call Option Date, with issues of new capital which is of the same or of better quality and is done under conditions which are sustainable for the income capacity of the Issuer; and (iii) at least a 30 Banking Day prior written notice to the then Holder on record. Any tax due on interest income already earned by the Holders on the Notes shall be for the account of the Issuer.

The notice for the Call Option shall be sent by the Issuer to the Public Trustee (with copy to the Registrar and Paying Agent) and to each of the

	registered Holders no less than thirty (30) Business Days nor more than forty five (45) Business Days prior to the Call Option Date. The Issuer shall likewise publish the notice of the Call Option in two (2) newspapers of general circulation in Metro Manila once a week for two (2) consecutive weeks at any time prior to the Call Option Date. Such notice shall state the Call Option Date, the Call Option Amount and the manner in which the call will be effected. (b) prior to the stated maturity and on any Interest Payment Date (having given not more than 45 nor less than 30 days' notice) at par plus accrued interest at their principal amount plus accrued but unpaid interest thereon if or when payments or principal or interest due on the Notes become subject to additional or increased taxes, other than any taxes and rates of such taxes prevailing as of the Issue Date, as a result of certain changes in law, rule, or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer; or (c) the non-qualification of the Notes as Tier 2 capital as determined by the BSP. Incremental tax, if any, that may be due on the interest income already earned under the Notes as a result of the exercise by the Issuer of its option for early redemption shall be for the account of the Issuer. Nothing herein shall be construed as an indication that the Issuer will exercise its Call Option and the Holders should not expect that such Call Option will be exercised.
Call Option Amount	The principal amount of the Note plus accrued interest covering the accrued and unpaid interest as of but excluding the Call Option Date.
Call Option Date	Last day of the twenty-first (21st) Interest Period, and on any Interest Payment Date thereafter.
Redemption other than Call Option	Upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the Issuer may, upon prior approval of the BSP and at least a 30-Banking Day prior written notice to the Holders on record, redeem all and not less than all of the outstanding Notes prior to the stated maturity by paying the Holder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 101% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption (the Redemption Option Date).
Regulatory Redemption Event	If a Regulatory Redemption Event has occurred and is continuing, then the Issuer may, at any time prior to the Maturity Date, redeem the Notes (in whole but not in part) at the applicable Redemption Option Amount. A Regulatory Redemption Event is deemed to have occurred if the Issuer is notified in writing by the BSP to the effect that as a result only of any amendment to the applicable regulatory capital requirements, the Notes in their entirety no longer qualify as Tier 2 capital and may no longer be included in full in the consolidated Tier 2 capital of the Issuer. In the event of a Regulatory Redemption Event, the Issuer shall shoulder the taxes due, if any, on the interest income already earned by the Holders.
Tax Redemption Event	If a Tax Redemption Event has occurred and is continuing, then the

	Issuer may, at any time prior to the Maturity Date, redeem the Notes (in whole but not in part) at the applicable Redemption Option Amount. A Tax Redemption Event is deemed to have occurred when: (a) as a result of a change in the tax treatment of the Notes because of changes in tax laws or regulations or interpretations thereof in respect of the Issuer's obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer would not be entitled to claim a deduction in computing its taxation liabilities in the Philippines; or (b) as a result of a change in the tax treatment of the Notes because of changes in tax laws or regulations or interpretations thereof, payments to qualified individual Holders would be subject to deduction or withholding for or on account of tax or would give rise to any obligation of the Issuer to account for any tax in the Philippines; and, in each case, such obligation cannot be avoided by the Issuer taking reasonable measures available to it. In the event of a Tax Redemption Event, the Issuer shall shoulder the taxes due, if any, on the interest income already earned by the Holders.
Non-Viability Trigger Event	A Non-Viability Trigger Event is deemed to have occurred when: (a) the Issuer is considered non-viable as determined by the BSP; or (b) Metropolitan Bank & Trust Company, the parent company of the Issuer, is considered non-viable as determined by the BSP. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or inability of the Issuer or Metropolitan Bank & Trust Company to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. Specifically, a Non-Viability Trigger Event shall be deemed to have occurred if the BSP notifies the Issuer in writing that it has determined that a: (a) Write-Down of the Notes and other capital instruments of the Issuer is necessary because, without such Write-Down, the Issuer or Metropolitan Bank & Trust Company would become non-viable; (b) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Issuer or Metropolitan Bank & Trust Company would become non-viable; or (c) Write-Down of the Notes and other capital instruments of the Issuer is necessary because, as a result of the closure of the Issuer, the Issuer or Metropolitan Bank & Trust Company would become non-viable.
Non-Viability Event Notice	The Non-Viability Event Notice means the notice that the Public Trustee shall give to the Holders stating that a Non-Viability Trigger Event has occurred, which notice shall be given, no later than three (3) Banking Days after the occurrence of a Non-Viability Trigger Event.
Loss Absorption Due to Non-Viability Trigger Event; Non-Viability Write-Down	The Notes have a loss absorption feature which means the Notes are subject to a Non-Viability Write-Down in case of a Non-Viability Trigger Event. If a Non-Viability Trigger Event has occurred and is continuing, the Issuer shall, no later than the 10 AM on the Banking Day immediately following the occurrence of such Non-Viability Trigger Event, give a Non-Viability Notice to the Public Trustee and to the Registrar and Paying Agent (which notice shall be irrevocable), subject as provided below (without the need for the consent of Holders or the Public Trustee):

(a) cancel any Interest which is accrued and unpaid to the relevant Loss Absorption Effective Date; and
(b) *pari passu* with any other Tier 2 Loss Absorbing Instruments (where possible) irrevocably (without the need for the consent of Holders or the Trustee), reduce the then prevailing principal (which would include such amount of Written-Down principal as a consequence of a Loss Absorption Measure) of each Note by the relevant Write-Down Amount (such reduction being referred to as a Write-Down, and Written-Down being construed accordingly),

(a Loss Absorption Measure), in each case, after having written-down to zero or converted into common equity of the Issuer any Tier 1 Loss Absorbing Instruments (where possible) irrevocably in accordance with the Conditions to Loss Absorption Measure herein below.

Non-Viability Notice means a notice which specifies which Non-Viability Trigger Event(s) has/have occurred, the Write-Down Amount and the Loss Absorption Effective Date, which shall be not earlier than five Banking Days nor later than 10 Banking Days following the giving of the Non-Viability Notice. Any Non-Viability Notice must be accompanied by a certificate signed by two Directors of the Issuer stating that the relevant Non-Viability Trigger Event has occurred, setting out the method of calculation of the Write-Down Amount and the particulars of a Tier 1 Write-Down (including but not limited to details of each series of Tier 1 Loss Absorbing Instruments written down or converted into common equity and such amount Written-Down. The Public Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the occurrence of a Non-Viability Trigger Event, in which event, it shall be conclusive and binding on the Holders.

Tier 1 Loss Absorbing Instrument means instrument (other than Common Shares) issued directly or indirectly by the Issuer or another entity within the Group which qualifies as Tier 1 capital of the Group.

Tier 2 Loss Absorbing Instrument means any instrument (other than the Notes) issued directly or indirectly by the Issuer or another entity within the Group which (a) qualifies as Tier 2 capital of the Group; and (b) which also has all or some of its principal amount written-down (in accordance with its conditions or otherwise) on the occurrence of the relevant Non-Viability Trigger Event.

Group means the Issuer and its consolidated subsidiaries.

Upon the occurrence of a Non-Viability Trigger Event, the Issuer shall write-down such amount of Notes sufficient to re-establish the viability of the Issuer or Metropolitan Bank & Trust Company, as determined in accordance with applicable BSP rules and regulations, which could go to as low as zero.

If a Non-Viability Trigger Event occurs with respect to Metropolitan Bank & Trust Company, then subject to and in accordance with the regulations of BSP and its approval for the issuance of the Notes, the Issuer will write-down some or all of the Notes in accordance with BSP's determination.

Additional Tier 1 ("AT1") capital instruments shall be utilized first before Tier 2 capital instruments are written-off, until the viability of the Issuer or Metropolitan Bank & Trust Company, as the case may be, is re-established. In the event the Bank does not have AT1 capital instruments, then the write-down shall automatically apply to Tier 2 capital.

A Non-Viability Write-down shall have the following effects: (a) it shall reduce the claim on the Notes in liquidation; (b) reduce the amount repaid when a call or redemption is properly exercised, and (c) partially or fully reduce the interest payments on the Notes.

Upon the occurrence of a Non-Viability Write-down, the full principal amount of the Notes may be permanently written down to zero and the Notes may be cancelled, and, as a result, the Holders may lose the entire amount of their investment in the Notes irrespective of whether the Issuer has sufficient assets available to settle the claims of the Holders under the Notes, in bankruptcy proceedings or otherwise.

Any such Non-Viability Write-down will be irrevocable and the Holders will, upon the occurrence of a Non-Viability Write-down, not (i) receive any shares or other participation rights of the Bank or be entitled to any other participation in the upside potential of any equity or debt securities issued by the Issuer or any other member of the Issuer, nor (ii) be entitled to any subsequent write-up or any other compensation in the event of a potential recovery of the Issuer or its subsidiaries.

Following the giving of a Non-Viability Notice, the Issuer shall ensure that:

(a) a similar notice is, or has been, given in respect of other Tier 2 Loss Absorbing Instruments (in accordance with their terms); and
(b) the outstanding principal amount of each series of Tier 2 Loss Absorbing Instruments (if any) is written-down on a pro rata basis with the principal (which would include such amount of Written-Down principal as a consequence of a Loss Absorption Measure) of the Notes as soon as reasonably practicable following the giving of such Non-Viability Notice and in any event not later than the Loss Absorption Effective Date.

Giving effect to a Loss Absorption Measure is subject to the following conditions ("Conditions to Loss Absorption Measure"):

(d) the principal amount of all series of Tier 1 Loss Absorbing Instruments outstanding (if any) having been (in accordance with, and to the extent possible pursuant to, their terms) Written-Down to zero or converted into common equity of the Issuer (where possible) irrevocably (Tier 1 Write-Down);
(e) the Tier 1 Write-Down having been insufficient to cure the Non-Viability Event; and
(f) the Issuer giving the relevant Non-Viability Notice to the Public Trustee and the Registrar and Paying Agent as provided above.

Purpose of Issuance — To strengthen the Bank's capital base and allow it to expand and strengthen its banking operations

Form — The Notes will be scripless and, subject to the payment of fees to the Registrar, registered and lodged with the Registrar in the name of the Holders, subject to the payment of fees to the Registrar, and in compliance with the provisions of Rep. Act No. 8792, otherwise known as the Electronic Commerce Act, particularly on the existence of an assurance on the integrity, reliability, and authenticity of the Notes in electronic form. The Notes will be represented by a Master Note, which will be deposited with the Public Trustee. A Registry Confirmation will be issued by the Registrar in favor of the Holders in accordance with the Regulations.

Status and Subordination — The Issuer, for itself, its successors and assigns, has in the Trust Agreement covenanted and agreed, and each Holder by accepting a Note irrevocably agrees and acknowledges, that:

(a) the indebtedness evidenced by the Notes constitutes direct, unconditional unsecured and subordinated obligations of the Issuer, and, upon any distribution to creditors of the Issuer in a Winding Up of the Issuer (as defined below), the claims of the Holders in respect of the Notes shall be subordinated in right of payment, to the extent and in the manner provided hereunder, to the prior payment in full of all liabilities (whether actual or contingent, present or future) of the Issuer, including claims of depositors, except those subordinated liabilities which by their terms rank equally in right of payment with or junior to the Notes;

(b) the Notes are not deposits and are not insured by the Philippine Deposit Insurance Corporation;

(c) The Notes are unsecured and are not covered by a guarantee of the Issuer or Arranger or any other related party of the Issuer or Arranger. Neither are the Notes covered by any other arrangement that legally or economically enhances the priority of the claim of the Holders as against depositors and other creditors of the Issuer;

(d) Claims in respect of the Notes will rank *pari passu* without preference among themselves, in priority to the rights and claims of holders of all classes of equity securities of the Issuer, including holders of preference shares, if any;

(e) Upon the distribution to creditors or any assets of the Issuer in the event of any insolvency or liquidation of the Issuer, the claims of Holders for principal and interest in respect of the Notes shall be subordinated in right of payment to claims (whether actual or contingent, present or future) of all depositors and creditors of the Issuer, except those creditors that are expressly ranked equally with or junior to the Holders in right of payment;

(f) and the Notes may not be used as collateral for any loan made by the Issuer or any of its subsidiaries or affiliates;

(g) Holders or their transferees shall not be allowed, and hereby waive their right, to set off any amount they owe to the Issuer against the Notes.

(h) The recognition of the Notes as regulatory capital in the remaining five years before maturity shall be amortized on a straight-line basis or in accordance with prevailing regulations at that time.

Set-off

Each Holder, by accepting the Note, irrevocably agrees and acknowledges that:

(a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Notes; and

(b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Representations and Warranties

The Issuer hereby represents and warrants to the Holders and the Public Trustee, as follows:

(a) The Issuer is a corporation duly organized, validly existing and in good standing under and by virtue of the laws of the Republic of the Philippines, has its principal office at the address indicated in the

Offering Circular, is registered or qualified to do business in every jurisdiction where registration or qualification is necessary and has the corporate power and authority to conduct its business as presently being conducted and to own its properties and assets now owned by it as well as those to be hereafter acquired by it for the purpose of its business.

(b) All corporate action and authorizations, consents, opinions, approvals and other acts legally necessary for the offer and issuance of the Notes, and for the Issuer to enter into and comply with its obligations under the Terms and agreements related to the issue of the Notes, have been obtained or effected.

(c) The Issuer has the corporate power under the laws of the Republic of the Philippines and its constitutive documents: (i) to issue the Notes and to enter into and perform its obligations under and to take all other actions and to do all other things provided for or contemplated in the Contracts and these Terms and Conditions; and (ii) to incur the indebtedness and other obligations provided for in the Notes.

(d) The Issuer (and, if applicable, any person on whose behalf it may act as agent or in a representative capacity) has and will continue to have full capacity and authority to enter into the Contracts and to carry out the transactions contemplated in the Contracts and has taken and will continue to take all action (including the obtaining of all necessary corporate approvals and governmental consents) to authorize the execution, delivery and performance of the Contracts.

(e) All government authorizations, consents, opinions, approvals, rulings, registrations, and other acts legally necessary for the offer, issuance, and payment of the Notes, Contracts and the Terms, as may be amended or supplemented, and for the Issuer to enter into and comply with its obligations under the Terms and all related agreements, have been obtained and remain valid and subsisting.

(f) All conditions imposed or required under the Regulations, as well as other regulations of the BSP, Bureau of Internal Revenue, Philippine Stock Exchange and other relevant agencies, have been complied with by the Issuer as of the date and/or time that they are required to be complied with.

(g) None of the information, data, or submissions made by the Issuer to the various government agencies, the Arranger, Selling Agents, Market Maker, Registrar and Paying Agent, or Holders in connection with the Notes violate any statute or any rule or regulation of any government agency or office, and do not contain any untrue or misleading statement of a material fact, or omit any material fact necessary or required to be stated.

(h) The obligations of the Issuer under these Terms and Conditions, the Contracts and the Notes will constitute its legal, valid, and binding obligations, enforceable in accordance with their terms, and the compliance by the Issuer with its obligations under these Terms and Conditions, the Contracts and the Notes will not conflict with, nor constitute a breach of or default of, the by-laws, or any resolution of the board of directors of the Issuer, or any rights of the stockholders of the Issuer, or any contract or other instrument by which the Issuer is bound, or by any law of the Republic of the Philippines, or any regulation, judgment, or order of any office, agency, or instrumentality applicable to the Issuer.

(i) The Notes constitute the direct, unconditional, unsecured and subordinated Peso-denominated obligations of the Issuer, enforceable in accordance with these Terms and Conditions, and will at all times rank *pari passu* and ratably without any preference among themselves and at least *pari passu* with all other direct, unconditional, unsecured and subordinated Peso-denominated obligations of the Issuer, present and future, other than obligations mandatorily preferred by law.

(j) The execution and delivery of the Contracts, the issue of the Notes, the carrying out of the other transactions contemplated by the Contracts and these Terms and Conditions and compliance with their terms do not and will not: (i) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the documents constituting the Issuer, or any indenture, trust deed, mortgage or other agreement or instrument to which the Issuer or any of the Issuer’s subsidiaries is a party or by which it or any of its properties is bound; or (ii) infringe any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental body or court, domestic or foreign, having jurisdiction over the Issuer, any such subsidiary or any of their properties.

(k) There are no legal, administrative, or arbitration actions, suits, or proceedings pending or threatened against or affecting the Issuer which, if adversely determined, would have a material adverse effect on the business operations, properties, assets, or financial conditions of the Issuer, or which enjoin or otherwise adversely affect the execution, delivery, or performance of these Terms and Conditions, or the offer and/or issuance of the Notes.

(l) The audited financial statements of the Issuer are in accordance with the books and records of the Issuer, are complete and correct in all material respects, have been prepared in accordance with generally accepted Philippine accounting principles and practices, and fairly represent the Issuer's financial condition and results of operations.

(m) There has been no material change in the financial condition or results of operations of the Issuer sufficient to impair its ability to perform its obligations under the Notes according to these Terms and Conditions.

(n) Save as disclosed in the Offering Circular, the Issuer has, as of the date thereof, no liabilities or obligations of any nature, whether accrued, absolute, contingent, or otherwise, including but not limited to tax liabilities due or to become due and whether incurred in respect of or measured by any income for any period prior to such date or arising out of transactions entered into or any state of facts existing prior thereto, which may in any case or in the aggregate, materially and adversely affect the Issuer's ability to discharge its obligations under these Terms and Conditions.

(o) Since issuance of the various approvals by the relevant government agencies for the offer or issuance of the Notes, there has been no change in the financial condition, assets, and liabilities of the Issuer, other than changes that do not, either in any case or in the aggregate, materially and adversely affect the Issuer's ability to discharge its obligations under these Terms and Conditions.

(p) No event has occurred and is continuing which constitutes a default by the Issuer under or in respect of any agreement binding upon the Issuer, and no event has occurred which, with the giving of notice, lapse of time, or other condition, would constitute a default by the Issuer under or in respect of such agreement, which default shall materially affect the Issuer's ability to comply with these Terms and Conditions and pay for the principal and interest that may be due on the Notes.

(q) The Issuer has good and marketable title to all its properties, free and clear of liens, encumbrances, restrictions, pledges, mortgages, security interest, or charges.

(r) The Issuer is conducting its business and operations in compliance with the applicable laws and regulations, has filed true, complete, and timely tax returns, and has paid all taxes due in respect of the ownership of its properties and assets or the conduct of its operations, except to the extent that the payment of such taxes is being contested in good faith and by appropriate proceedings.

(s) The Issuer has obtained the necessary concessions, permits, or privileges required for conducting its business and operations, and shall have free and continued use and exercise thereof.

(t) The Issuer maintains insurance with reputable insurance companies in such amounts and covering such risks as are prudent and appropriate and as are usually carried by financial institutions engaged in similar business and owning similar properties in the same geographical areas as those in which the Issuer operates.

(u) (i) The Preliminary Offering Circular dated April 22, 2014 and the final Offering Circular dated May 12, 2014 (collectively, the "Offering Circulars") contains all information with respect to the Issuer and to the Notes which is material in the context of the issue and offering of the Notes (including, without limitation, all information required by the applicable laws and regulations of the Philippines and the information which, according to the particular nature of the Issuer and of the Notes, is necessary to enable potential Holders and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and of the rights attaching to the Notes); (ii) the statements contained in the Offering Circulars relating to the Issuer are in every material respect true, accurate and not misleading; (iii) the opinions and intentions expressed in the Offering Circulars with regard to the Issuer are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in the Offering Circulars misleading in any material respect; and (v) all reasonable inquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

(v) The Offering Circulars accurately describe: (i) accounting policies which the Issuer believes to be the most important in the portrayal of the Group's financial condition and results of operations (the "Critical Accounting Policies"); (ii) material judgments and uncertainties affecting the application of the Critical Accounting Policies; and (iii) an explanation of the likelihood that materially different amounts would be reported under different conditions or using different assumptions, and the Board of Directors and audit committee of the Issuer have reviewed and agreed with the selection and disclosure of the Critical Accounting Policies in the Offering Circular and have consulted with their independent auditor with regards to such disclosure.

(w) The Issuer maintains systems of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with financial reporting standards in the Philippines for banks and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (v) the Issuer has made and kept books, records and accounts which, in reasonable detail, accurately and fairly reflect its transactions and dispositions and provide a sufficient basis for the preparation of the Issuer's consolidated financial statements in accordance with financial reporting standards in the Philippines for banks; and the Issuer's current management information and accounting control system has been in operation for at least twelve (12) months during which the Issuer has not experienced any material difficulties with regard to (i) through (v) above.

(x) There are no outstanding guarantees or contingent payment obligations of the Issuer in respect of indebtedness of third parties except as described in the Offering Circulars; the Issuer is in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in the Offering Circulars.

(y) The Offering Circulars accurately and fully describe: (i) all material trends, demands, commitments, events, uncertainties and risks, and the potential effects thereof, that the Issuer believes would materially affect liquidity and are reasonably likely to occur; and (ii) all material off-balance sheet transactions, arrangements, and obligations; and the Issuer does not have any material relationships with unconsolidated entities that are contractually limited to narrow activities that facilitate the transfer of or access to assets by the Issuer, such as structured finance entities and special purpose entities that are reasonably likely to have a material effect on the liquidity of the Issuer or the availability thereof or the requirements of the Issuer for capital resources.

(z) All information provided by the Issuer to its independent auditors required for the purposes of their comfort letters in connection with the offering and sale of the Notes has been supplied, or as the case may be, will be supplied, in good faith and after due and careful enquiry; such information was when supplied and remains (to the extent not subsequently updated by further information supplied to such persons prior to the date hereof), or as the case may be, will be when supplied, true and accurate in all material respects and no further information has been withheld the absence of which might reasonably have affected the contents of any of such letters in any material respect.

(aa) Save as disclosed in the Offering Circulars, all transactions by the Issuer with its directors, officers, management, shareholders, or any other person, including persons formerly holding such positions, are on terms that are available from other parties on an arm's-length basis.

(bb) Except as specifically described in the Offering Circulars, the Issuer and its affiliates and subsidiaries own or possess (or can acquire on reasonable terms), all patents, licenses, inventions, copyrights, know-how, trademarks, service marks, trade names or other intellectual property (collectively, "Intellectual Property") necessary to carry on the business now operated by them; and neither the Issuer nor any of its affiliates or subsidiaries has received notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interests of the Issuer or its affiliates or subsidiaries therein; and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in an Adverse Effect.

(cc) No event has occurred or circumstance arisen which (whether or not with the giving of notice and/or the passage of time and/or the fulfillment of any other requirement) constitutes an event described under "Events of Default" hereunder.

(dd) The Issuer is in compliance with the Anti-Money Laundering Laws of the Philippines in all material respects.

(ee) The Issuer is Solvent. As used in this paragraph, the term "Solvent" means, with respect to a particular date, that on such date: (i) the present fair market value (or present fair saleable value) of the assets of the Issuer is not less than the total amount required to pay the liabilities of the Issuer on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; (ii) the Issuer is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business; (iii) the Issuer is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; (iv) the Issuer is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which the Issuer is engaged; (v) the Issuer will be able to meet its obligations under all its outstanding indebtedness as they fall due; and (vi) the Issuer is not a defendant in any civil action that would result in a judgment that the Issuer is or would become unable to satisfy.

Covenants

The Issuer covenants and agrees that while any of the Notes are outstanding, the Issuer shall:

(a) Pay and discharge all taxes, assessments, and government charges or levies imposed upon it or upon its income or profits or upon any properties belonging to it prior to the date on which penalties are assessed thereto; pay and discharge when due all lawful claims which, if unpaid, might become a lien or charge upon any of the properties of the Issuer; and take such steps as may be necessary in order to prevent its properties or any part thereof from being subjected to the possibilities of loss, forfeiture, or sale; provided, that the Issuer shall not be required to pay any such tax, assessment, charge, levy, or claim which is being contested in good faith and by proper proceedings or as could not reasonably be expected to have a material adverse effect on the condition, business, or properties of the Issuer; provided, that in the case of a tax, assessment, charge, levy, or claim which is being contested in good faith and by proper proceedings, the Public Trustee shall be notified by the Issuer within 30 days from the date of the receipt of written notice of the resolution of such proceedings.

(b) Preserve and maintain its corporate existence.

(c) Maintain adequate financial records and prepare all financial statements in accordance with generally accepted accounting principles and practices in the Philippines consistently applied and in compliance with the regulations of the government body having jurisdiction over it, and, subject to receipt of a written request within a reasonable period before the proposed date of inspection, permit the Public Trustee or its duly designated representatives to inspect the books of accounts and records pertinent to the compliance by the Issuer of the Terms.

(d) Comply with all the requirements, terms, covenants, conditions, and provisions of all laws, rules, regulations, orders, writs, judgments, indentures, mortgages, deeds of trust, agreements, and other instruments, arrangements, obligations, and duties to which it, its business or its assets may be subject, or by which it, its business, or its assets are legally bound where non-compliance would have a material adverse effect on the business, assets, condition, or operations of the Issuer, or would materially and adversely affect the Issuer's ability to duly perform and observe its obligations and duties under this Agreement and/or the Notes.

(e) Comply with all BSP directives; promptly and satisfactorily take all corrective measures that may be required under BSP audit reports on its operations; and promptly furnish the Public Trustee with a copy of all its submissions to and audit reports of the BSP.

(f) Use the net proceeds from the Notes exclusively to provide additional Tier 2 capital in order to strengthen its capital base and allow it to expand and strengthen its banking operations or as otherwise described in the Offering Circular.

(g) Pay all indebtedness and other liabilities and perform all other contractual obligations pursuant to all other agreements to which it is a party to or by which it or any of its properties may be bound, except those being contested in good faith and by proper proceedings or as could not reasonably be regarded to have a material adverse effect on its business, assets, condition, or operations.

(h) Pay all amounts due under the Notes at the times and in the manner specified herein, and perform all its obligations, undertakings, and covenants under the Notes.

(i) Ensure that if, under the terms of any bond, note, debenture, or similar security which shall be or purport to be subordinated obligations of the Issuer, or which shall be considered capital of the Issuer for any regulatory purposes or which ranks *pari passu* with, or junior to, the Issuer’s obligations under the Notes, the Issuer agrees to a provision that it shall not permit any indebtedness to be secured by or to benefit from any lien in favor of any creditor or class of creditors with respect to any present or future property or the right of the Issuer to receive income, nor shall it permit any creditor to receive any priority or preference arising under Article 2244(14) of the Civil Code of the Philippines over the claims of the holders of any such bond, note, debenture or similar security, the Notes and the Holders shall enjoy the same advantage resulting from such provision.

(j) As soon as available and in any event within 120 days after the end of each fiscal year of the Issuer, or at such later date on which the Issuer files such information with the BSP or otherwise makes such information publicly available, furnish the Public Trustee with audited financial statements, consisting of the balance sheet of the Issuer as of the end of such fiscal year and statements of income and retained earnings and of the source and application of funds of the Issuer for such fiscal year, such audited financial statements being prepared in accordance with generally accepted accounting principles and practices in the Philippines consistently applied and being certified by the Commission on Audit of the Republic of the Philippines; and shall furnish the Public Trustee within 10 days from written request with such updates and information as may be reasonably requested by the Public Trustee pertaining to the business, assets, condition, or operations of the Issuer, or affecting the Issuer's ability to duly perform and observe its obligations and duties under this Agreement and/or the Notes.

(k) Give to the Holders, through the Public Trustee, written notice of: (i) all assessments, litigation, or administrative or arbitration proceedings before or of any court, tribunal, arbitrator, or governmental or municipal authority affecting the Issuer or any of its assets regarding any claim which (1) is in excess of Five Hundred Million Pesos (P500,000,000.00) or (2) could result in an Adverse Effect; (ii) any labor controversy resulting or threatening to result in any action against the Issuer that may materially and adversely affect its financial condition or business operations; (iii) any Event of Default or any event, which, upon a lapse of time or giving of notice or both, would become an Event of Default; (iv) any damage or destruction or loss which might materially and adversely affect its financial condition or business operations; or (v) any other matter or conditions affecting the Bank or which might qualify as, or which could result in an Adverse Effect, immediately upon becoming aware that the same is pending or has been commenced or has occurred.

(l) When so requested in writing, provide any and all information needed by the Public Trustee to enable it to comply with its responsibilities and duties under the Notes, the Regulations, other BSP regulations, this Agreement and related agreements, and the Terms of the Notes; provided, that, in the event that the Issuer cannot, for any reason, provide the required information, the Issuer shall so immediately advise the Public Trustee.

(m) Promptly advise the Public Trustee: (i) of any request by any government agency for any information related to the Notes, and (ii) of the issuance by any governmental agency of any cease and desist order suspending the distribution or sale of the Notes or the initiation of any proceedings for any such purpose; provided, that no amendments or supplements to any selling materials, prospectuses, or other documents pertaining to the offer of the Notes have been or will be made without the prior written notice to, and without the approval of, the Public Trustee, which approval shall not be unreasonably withheld.

(n) Exert its best efforts to obtain at the sole expense of the Issuer the withdrawal of any order suspending the transactions with respect to the Notes at the earliest time possible.

(o) Ensure that any documents related to the Notes will, at all times, comply in all material respects with the applicable laws, rules, regulations, and circulars, and, if necessary, make the appropriate revisions, supplements, and amendments to make them comply with such laws, rules, regulations, and circulars.

(p) Execute and deliver to the Public Trustee such reports, documents, and other information in respect of the business, properties, condition, or operations, financial or otherwise, of the Issuer as the Public Trustee may from time to time reasonably require, subject to bank secrecy laws and proprietary or private information.

(q) As soon as possible, (i) in the event of the occurrence of a Non-Viability Trigger Event, no later than the 10 AM on the Banking Day immediately following the occurrence of such Non-Viability Trigger Event, give a Non-Viability Notice to the Public Trustee and to the Registrar, and (ii) in the event of the occurrence of an Event of Default, within five (5) days after the occurrence of any default on any of the obligations of the Issuer, or other event which, with the giving of any notice and/or with the lapse of time, would constitute a default under the agreements of the Issuer with any party, serve a written notice to the Public Trustee of the occurrence of any such default, specifying the details and the steps which the Issuer is taking or proposes to take for the purpose of curing such default including the Issuer's estimate of the length of time to correct the same.

(r) Make available to the Public Trustee financial and other information regarding the Issuer by filing with the SEC and/or PSE, at the time required or within any allowed extension, the reports required by the SEC and/or PSE, as the case may be from corporations in general.

(s) Not engage in any business except such business as may be authorized to be engaged by it under its By-Laws;

(t) Not sell, transfer, convey, lend or otherwise dispose of all or substantially all of its assets;

(u) Not extend any loan or advances to its directors and officers, except loans or advances granted pursuant to benefits, compensation, reimbursements, and allowances as may be allowed under existing Issuer policies and practice and such loans and advances as may be allowed under existing laws and regulations.

(v) Not assign, transfer or otherwise convey any right to receive any of its income or revenues except in the ordinary course of its business and by way of security.

(w) Not, except in the ordinary course of business, purchase, repurchase or otherwise acquire, assume, guarantee, endorse or otherwise become directly or contingently liable (including, without limitation, being or becoming liable by way of agreement, contingent or otherwise, to purchase, to use facilities, to provide funds for payment, to supply funds to or otherwise invest in the debtor or otherwise to assure the creditor against loss) for or in connection with any obligation or indebtedness, stock or dividends of any other person.

(x) Not acquire into treasury outstanding shares or decrease or reduce its authorized capital stock during an Event of Default or if such acquisition or decrease/reduction in the authorized capital stock would result to an Event of Default.

(y) Not voluntarily suspend all or substantially all of its business operations.

(z) Not grant to a creditor, in any future bond, note, debenture, or similar security which shall be or purport to be subordinated obligations of the

Issuer, or which shall be considered capital of the Issuer for any regulatory purposes, any right above and beyond what is provided under Philippine laws to apply amounts on deposit with or in possession of any such creditor by way of set-off in reduction of any amount owing under said loan or credit agreements.

(aa) Not enter into any management contracts, profit-sharing or any similar contracts or arrangements whereby its commercial banking business or operations are managed by, or its income or profits are, or might be shared with, another person, firm or company, which management contracts, profit-sharing or any similar contracts or arrangements will materially and adversely affect the Issuer's ability to perform its material obligations under the Notes.

(bb) As long as any obligations under the Notes remain outstanding, the Issuer shall not create, issue, assume, guarantee, or otherwise incur any bond, note, debenture or similar security which shall be or purport to be subordinated obligations of the Issuer, or which shall be considered capital of the Issuer for any regulatory purposes, unless such obligations rank *pari passu* with, or junior to, the Issuer's obligations under the Notes in any proceedings in respect of the Issuer for insolvency, winding up, liquidation, receivership, conservatorship, or other similar proceedings.

(cc) Not allow the Notes to be used as collateral for any loan made by the Issuer or any of its subsidiaries or affiliates, if any.

(dd) Maintain the services of a responsible and reputable independent auditor.

Events of Default

The following shall exclusively be considered "Events of Default":

(a) The Issuer defaults in the payment of any amount of principal or premium (if any) in respect of the Notes on the due date for payment thereof or defaults in the payment of any amount of interest in respect of the Notes.

(b) Any representation and warranty of the Issuer or any certificate or opinion submitted by the Issuer in connection with the issuance of the Notes is untrue, incorrect, or misleading in any material respect or the Issuer fails to perform or violates its covenants under the Notes, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of 10 days from notice by the Public Trustee to the Issuer.

(c) The Issuer fails to perform or violates its covenants under these Terms and Conditions (other than the payment obligation under paragraph (a) above) or the Notes, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of fifteen (15) days from notice by the Public Trustee to the Issuer.

(d) The Issuer defaults in the repayment of any amount of principal and premium (if any) or interest, violates any term or condition of any contract executed by the Issuer with any other bank, financial institution, or other person, corporation, or entity for the payment of moneys which constitutes an event of default under said contract; or, in general, the Issuer violates any contract, law or regulation which (i) if remediable, is not remedied by the Issuer within 10 days from notice by the Public Trustee to the Issuer, or is otherwise not contested by the Issuer, (ii) results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity, or (iii) will, in the reasonable opinion of the Public Trustee, adversely and materially affect the performance by the Issuer of its obligations under the Notes and pay any amount outstanding on the Notes.

(e) Any governmental consent, license, approval, authorization, declaration, filing or registration which is granted or required in connection with the Notes expires or is terminated, revoked or modified and the result thereof is to make the Issuer unable to discharge its obligations hereunder or thereunder.

(f) It becomes unlawful for the Issuer to perform any of its material obligations under the Notes.

(g) The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Issuer, or condemns, seizes, or expropriates all or substantially all of the properties of the Issuer.

(h) Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty in excess of P50,000,000.00 or its equivalent in any other currency is entered against the Issuer and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within 30 days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement.

(i) Any judgment, writ, warrant of attachment or execution, or similar process shall be issued or levied against all or substantially all of the Issuer's assets and such judgment, writ, warrant, or similar process shall not be released, vacated, or fully bonded within 30 days after its issue or levy.

(j) The Issuer voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of 30 days, except in the case of strikes or lockouts when necessary to prevent business losses, or when due to fortuitous events or force majeure, or when there is no material adverse effect on the business operations or financial condition of the Issuer.

(k) The Issuer (i) is (or could be deemed by law or a court or the BSP to be) insolvent or bankrupt or unable to pay its debts, (ii) stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, (iii) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), (iv) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts, or (v) a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer ("Event of Insolvency");

(l) The Issuer takes any corporate action or other steps are taken or legal proceedings are started for its winding up, bankruptcy, dissolution or reorganization (except in any such case for the purposes of a merger, consolidation, reorganization, reconstruction or amalgamation authorized by a law enacted for said purpose upon which the continuing corporation or the corporation formed thereby effectively assumes the entire obligations of the Issuer under the Notes and the terms of which have previously been approved by Holders representing at least two-thirds of the Notes then outstanding) or for the appointment of a receiver, administrator, administrative receiver, conservator, trustee or similar officer of it or of any or all of its revenues and assets;

(m) Any act or condition or thing required to be done, fulfilled or performed at any time in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform the obligations expressed to be assumed by it under the Notes, or (ii) to ensure that the obligations expressed to be assumed by the Issuer hereunder are legal, valid and binding, is not done, fulfilled or performed at such time.

Effects of Events of Default	The Public Trustee shall, within three (3) Banking Days after receiving notice of the occurrence of any Event of Default, give to the Holders notice of such Event of Default under Clause 8 of the Trust Agreement. Except in the case of an Event of Insolvency (as defined below), the payment of principal on the Notes may not be accelerated. If any one or more of the Events of Default shall have occurred and be continuing, after any applicable cure period shall have lapsed, the Public Trustee may, upon the written direction of persons holding more than 20.0% of the aggregate principal amount of the then outstanding Notes, require the Issuer to perform any act as the Holders may reasonably require in order to cure the default as may be allowed under the Regulations and applicable circulars; provided, that in case of an Event of Insolvency, the Public Trustee, shall on its own (i) perform any act for the collection of the principal and interest on the Notes on the understanding that the Notes shall be subordinated in the right of payment of principal and interest to all depositors and other creditors of the Issuer, except those creditors expressed to rank equally with, or behind the Holders, and/or (ii) declare the principal of the Notes to be immediately due and payable, without prejudice to the other remedies available to the Holders.
Holder/s………………	Any person who, at any relevant time from the Issue Date, appears in the Registry as the registered owner of the Notes,
Prohibited Holders	The following persons and entities shall be prohibited from purchasing and/or holding any Notes of the Issuer: (1) the Issuer or any related party over which the Issuer exercises control or significant influence, including its subsidiaries and affiliates of the Issuer, including the subsidiaries and affiliates of the Issuer's subsidiaries and affiliates; or (2) unit investment trust funds managed by the Trust Department of the Issuer, its subsidiaries, and affiliates, or other related entities; or (3) other funds being managed by the Trust Department of the Issuer, its subsidiaries and affiliates or other related entities where (a) the fund owners have not given prior authority or instruction to the Trust Department to purchase or invest in the Notes or (b) the authority or and instruction of the fund owner and his understanding of the risk involved in purchasing or investing in the Notes are not fully documented. For purposes hereof, a “subsidiary” means, at any particular time, a company which is then directly or indirectly controlled, or more than fifty percent (50.0%) of whose issued voting equity share capital (or equivalent) is then beneficially owned, by the Issuer and/or one or more of its subsidiaries or affiliates and an “affiliate” refers to a related entity at least 20.0% to not more than 50.0% of the outstanding voting stock of which is owned by the Issuer ; (4) such persons who are otherwise not qualified under the BSP Rules including such persons who have not complied with the requirements under BSP Circular No. 786 and BSP Circular No. 826 and (5) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time, which include:

	a U.S. citizen (including dual citizen); a U.S. resident alien for U.S. tax purposes; a US partnership; a U.S. corporation; any U.S. estate; any U.S. trust if: (a) a court within the United States is able to exercise primary supervision over the administration of the trust; (b) one or more U.S. persons have the authority to control all substantial decisions of the trust; any other person that is not a non-US person.
Qualification Determination	The Selling Agents (in the case of a primary issuance of the Notes) and the Market Maker (in the case of secondary trading of the Notes) shall verify the identity and other relevant details of each investor and ascertain that the proposed holder or transferee is an Eligible Holder, as the case may be, and is not a Prohibited Holder. Final determination shall, however, vest with the Issuer. The Holder shall immediately submit any and all information reasonably required by the Selling Agents and/or Market Maker with respect to the qualification of the proposed holder or transferee in order to determine that such transferee is an Eligible Holder, and is not a Prohibited Holder.
Selling Agents………….	ING and Multinational Investment Bancorporation ("MIB") (each acting in the capacity of a selling agent) and/or such other institutions appointed by the Issuer to perform the role of a selling agent as required under the Regulations.
Limited Selling Agents..	Philippine Savings Bank ("PSBank") and First Metro Investment Corporation ("FMIC") PSBank and FMIC, acting as Limited Selling Agents, shall: (i) distribute no more than fifty percent (50.0%) of the total issuance of the Notes, (ii) enforce adequate client suitability procedures, and (iii) perform the other functions and responsibilities of a Selling Agent.
Market Maker	MIB and/or such other institutions appointed by the Issuer to perform the role of a market maker as required under the Regulations, and, as applicable, may refer to the registered fixed income exchange referred to in the Regulations.
Public Trustee	Development Bank of the Philippines ("DBP")
Registrar and Paying Agent	Philippine Depository and Trust Corporation ("PDTC") and/or such other institutions appointed by the Issuer to perform the role of a registrar and/or paying agent as required under the Regulations
Meetings of Holders	Meetings of the Holders shall be called and conducted as follows: (a) The Public Trustee may at any time call meetings, on its own accord or upon the written request by the Issuer or Holders holding at least 20.0% of the aggregate outstanding principal amount of the Notes, for purposes of taking any actions authorized under the Trust Agreement or under the Regulations. (b) Unless otherwise provided herein, notice of every meeting of the Holders, setting forth the time and place of such meeting (which shall be within Makati City) and purpose of such meeting in reasonable detail, shall be sent by the Public Trustee to the Issuer and to each of the registered Holders not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting and published in a newspaper of general circulation in the Philippines once a week for two (2) consecutive weeks at any time prior to the date stated in the notice for the date of the meeting; provided, that all documented costs and expenses incurred by the Public Trustee for

the proper dissemination of the requested meeting shall be advanced or reimbursed, as the case may be, by the Issuer within three Banking Days from receipt of the duly supported invoice or billing statement.

(c) Failure of the Public Trustee to call a meeting upon the written request of either the Issuer or the Holders holding at least 20.0% of the aggregate outstanding principal amount of the Notes within 10 days from such request shall entitle the requesting party to send the appropriate notice of Holders meeting in accordance with the Trust Agreement.

(d) The presence of persons holding more than 50.0% of the principal amount of the outstanding Notes (the "Majority Holders"), personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Holders. Further, the affirmative vote of the Majority Holders shall be required to decide or approve any resolution brought before such meeting.

(e) The Public Trustee shall preside at all the meetings of the Holders until the pertinent Holders are elected as chairman and secretary of the meetings, unless the meeting shall have been called by the Issuer or by the Holders as provided in Clause 10 of the Trust Agreement, in which case the Issuer or the Holders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.

(f) Any meeting of the Holders may be adjourned from time to time for a period not to exceed in the aggregate one year from the date for which the meeting shall originally have been called, and the meeting as so adjourned may be held without further notice.

Notice

Any communication shall be given by letter, fax or telephone, and shall be given, in the case of notices to the Issuer, to it at:

PHILIPPINE SAVINGS BANK
PSBank Center
777 Paseo de Roxas corner Sedeño Street
Makati City Philippines

Telephone no.: (632) 885-8208 local 8538 or 885-8206
Fax no.: (632) 885-8352
Attention: Perfecto Ramon Z. Dimayuga, Jr.
SVP and Chief Finance Officer

And in the case of notices to the Registrar and Paying Agent to it at:

PHILIPPINE DEPOSITORY & TRUST CORP.
37TH Floor Enterprise Centre Tower I
Ayala Avenue, Makati City, Metro Manila

Telephone no.: (632) 8844439/8844425
Fax no.: (632) 7576025
Attention: Maria Corazon M. Ordonez
Executive Director

Josephine F. Dela Cruz
Assistant Director

And in the case of notices to the Holders, through the Public Trustee at:

DEVELOPMENT BANK OF THE PHILIPPINES – TRUST BANKING GROUP
3rd Floor, DBP Building
Makati Avenue corner Sen Gil J. Puyat Avenue
Makati City Philippines

Telephone no.: (632) 818-9511 local 2305
Fax no.: (632) 893-0942
Attention: Atty. Felipe Velasco
Vice President

which, upon receipt of such notice shall publish the same in two (2) newspapers of general circulation in Metro Manila once a week for two (2) consecutive weeks; Provided, that all documented costs and expenses incurred by the Public Trustee for the proper dissemination of such notice shall be reimbursed by the Issuer in a timely fashion after receipt of the duly supported billing statement.

Or any other address or mode of service of which written notice has been given to the parties in accordance with this condition.

Such communications will take effect, in the case of a letter, when delivered or, in the case of fax, when dispatched, provided that any communication by fax shall not take effect until 10:00 a.m. on the immediately succeeding Business Day in the place of the recipient, if such communication is received after 5:00 p.m. on a Business Day or is otherwise received on a day which is not a Business Day. Communications not by letter shall be confirmed by letter but failure to send or receive the letter of confirmation shall not invalidate the original communication.

Offer Period

The period when the Notes shall be offered for sale by the Issuer through the Issuer's branches and the Selling Agents to prospective Holders, with the Offer Period commencing at 9:00 a.m. of May 8, 2014 and ending at 5:00 p.m. on May 16, 2014 or such other days as may be determined by the Arranger and Selling Agents, in consultation with the Issuer.

Purchase Advice………

The written advice, in the form and substance to be agreed upon by the Issuer, Selling Agents and Market Maker, to be sent to a purchaser of the Notes, with a duplicate original copy to the Registrar, by the Selling Agents or the Market Maker, as the case may be, on behalf of the Issuer, confirming the fact, details, and terms and conditions of the sale of Notes to such purchaser.

Registry Confirmation...

The written advice to be sent by the Registrar to the Holder to confirm the number and salient terms and conditions of the Notes registered in the name of the Holder in the Registry.

Governing Law and Jurisdiction

This Note shall be governed by and shall be construed in accordance with the laws of the Republic of the Philippines. The Issuer irrevocably submits to the exclusive jurisdiction of the courts of Makati City with respect to any legal action, suit, or proceeding against it with respect to its obligations, liabilities or any other matter arising out of or in connection with this Note and these Terms and Conditions ("Proceedings"). The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each Holder and shall not limit the right of any of them to take Proceedings in any other court of

	competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).
Amendment	Any amendment of these Terms and Conditions is subject to the Governing Regulations.
Non-Waiver	The failure of any party at any time or times to require the performance by the other of any provision of the Notes or these Terms and Conditions shall not affect the right of such party to require the performance of that or any other provisions and the waiver by any party of a breach under these Terms and Conditions shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself or a waiver of any right under these Terms and Conditions. The remedies herein provided are cumulative in nature and not exclusive of any remedies provided by law.
Ability to File Suit	Nothing herein shall be deemed to create a partnership or collective venture between the Holders. Each Holder shall be entitled, at its option, to take independent measures with respect to its obligations and rights and privileges under these Terms and Conditions, and it shall not be necessary for the other Holders to be joined as a party in any judicial or other proceeding for such purpose.
Severability	If any provision hereunder becomes invalid, illegal or unenforceable under any law, the validity, legality and enforceability of the remaining provisions of these Terms and Conditions shall not be affected or impaired. The parties agree to replace any invalid provision which most closely approximate the intent and effect of the illegal, invalid or enforceable provision.
Prescription	Any action upon the Notes shall prescribe within ten (10) years from the time the right of action accrues.
Adverse Effect	Any material and adverse effect on: (a) the ability of the Issuer to duly perform and observe its obligations and duties under the Notes and the Contracts; (b) the condition (financial or otherwise), prospects, results of operations or general affairs of the Issuer; or (c) the legality, validity and enforceability of the Contracts.
Approval…………….....	Approval of the BSP authorizing the Issuer to issue and offer the Notes over the course of one (1) year from 14 April 2014 pursuant to and in compliance with the Regulations.
Contracts…………….....	The contracts entered into by the Issuer in respect of the issue of the Notes, to wit: (a) the Issue Management and Placement Agreement in the agreed form dated on or about April 22, 2014 between the Issuer and the Arranger; (b) the Selling Agency Agreement in the agreed form dated on or about April 22, 2014 between the Issuer and the Selling Agents(c) the Registry and Paying Agency Agreement in the agreed form dated on or about April 22, 2014 between the Issuer and the Registrar and Paying Agent; (d) the Trust Agreement in the agreed form dated on or about April 22, 2014 between the Issuer and the Public Trustee; (e) the Market Making Agreement in the agreed form dated on or about April 22, 2014 between the Issuer and the Market Maker; (f) the Master Note; (g) these Terms and Conditions; and (h) such other separate letters or agreements covering conditions precedent, fees, expenses and other obligations of the parties, including amendments thereto.
Compliance Reports	The Public Trustee shall report promptly and regularly to Holders any non-compliance by the Issuer with the terms and conditions of the Notes and

any developments with respect to the Issuer that adversely affect the interest of the Holders, including any default by the Issuer on any of its obligations of which the Public Trustee may have written notice from the Issuer pursuant to the Issuer's Covenants, and upon advice of legal counsel, inform the Holders of the alternative courses of action that they may take to protect their interest; provided, that, for purposes hereof, the Public Trustee shall publish a notice in a newspaper of general circulation, binding upon all the Holders wherever situated or located, for two consecutive days that the Holders or their duly authorized representatives may obtain a report regarding the Notes at the principal office of the Public Trustee upon presentation of sufficient and acceptable identification.

Taxation

In the event that the Holder is either (i) a Filipino citizen, (ii) an alien residing in the Philippines, (iii) a non-resident alien engaged in trade or business in the Philippines, (iv) subject to the clause on Prohibited Holders, a long-term trust account or long-term management account (including common trust funds of banks other than the Issuer) exclusively for Filipino citizens, aliens residing in the Philippines, and non-resident aliens engaged in trade or business in the Philippines; (v) a BIR-tax-qualified employee trust fund established by corporations; or (vi) any other tax-exempt institution (upon presentation of acceptable proof of tax exemption), all payments for principal and interest shall be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including interest and penalties, unless such withholding or deduction is required by law.

In the event there is a change in the tax status of the Notes because of new, or changes in tax laws (and not merely a change in the interpretation of present tax laws and regulations) as a result of which, any payments of principal and/or interest under the Notes shall be subject to deductions or withholdings for or on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the "New Taxes"), then all payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any such new taxes. In that event, the Issuer shall pay to the Holders concerned such additional amount as will result in the receipt by the Holders of such amounts as would have been received by them had no such withholding or deduction for new taxes been required. For the avoidance of doubt, such taxes and duties imposed shall be for the account of the Holder and the Issuer shall make the necessary withholding or deduction for the account of the Holder concerned;

In any case, however, the Issuer shall not be liable for:

(a) the twenty percent (20.0%) or such other final withholding tax applicable on interest earned on the Notes prescribed under the National Internal Revenue Code (“NIRC”) of 1997, as amended;
(b) Gross Receipts Tax under Section 121 of the NIRC;
(c) taxes on overall income of any securities dealer or any Holder, whether or not subject to withholding; and
(d) Value Added Tax (“VAT”) under Sections 106 to 108 of the NIRC, as amended by Republic Act No. 9337.

As required by law, the abovementioned 20.0% final withholding tax on interest income shall be withheld by the Issuer as withholding agent. The Issuer shall, upon request of the relevant Holder, provide the necessary proof of such withholding and corresponding payment to the Philippine revenue authorities.

In case of transfers and assignments deemed by the Issuer as a pre-termination for tax purposes, the transferor Holder shall be liable for the resulting tax due on the entire interest income earned on the Notes (if any), based on the holding period of such Notes:

(1) Four (4) years to less than five (5) years:	5.0%;
(2) Three (3) years to less than four (4) years:	12.0%; and
(3) Less than three (3) years:	20.0%.

Documentary stamp tax for the primary issuance of the Notes and the execution of the agreements pursuant thereto, if any, shall be for the Issuer's account.

Banking Day	Any day in a week, other than Saturday or Sunday, when banks are not required or are not authorized to close in Makati City.

DESCRIPTION OF THE BANK

Introduction

Philippine Savings Bank is a thrift bank based in the Philippines. It offers a wide range of banking and other financial products and services, including deposits, loans, treasury, credit card, and trust. It caters mainly to the retail and consumer markets. The Bank is ranked second among the country's 71 thrift banks in terms of assets as of 30 September 2013 based on data from the *Bangko Sentral ng Pilipinas* (''BSP''). The Bank's total assets were ₱130.03 billion, ₱116.16 billion and ₱120.26 billion as at 31 December 2013, 2012 and 2011, respectively. Total equity were ₱16.26 billion, ₱15.03 billion and ₱15.53 billion as at 31 December 2013, 2012 and 2011, respectively.

As of 31 December 2013, the Bank has a network of 224 branches nationwide and is expected to increase to 244 by end-2014. The Bank also has 551 ATMs, which are part of the Bancnet consortium. This is broken down to 237 on-site and 314 off-site locations.

The Bank is listed on the Philippine Stock Exchange (the ''PSE'') with a market capitalization of ₱33.64 billion as of 31 December 2013.

As of 31 December 2013, the Bank's capital adequacy ratio and Tier 1 capital adequacy ratio were at 16.92% and 13.81%, respectively.

History

The Bank was established in 30 June 1959 primarily to engage in savings and mortgage banking. Its first head office was located in Quiapo, Manila. In 1983, Metrobank acquired majority stake in the Bank, and in 2004 further increased its shareholdings to the present level of 75.98%.

In 1991, the Bank was authorized to perform trust functions and in 1995, was granted a quasi-banking license. In 1994, its shares were listed on the PSE and made it the first publicly listed thrift bank in the country.

The Bank moved its principal office to its current address at the PSBank Center, 777 Paseo de Roxas corner Sedeno St., Ayala Avenue, Makati City, Philippines in 2003. The website of the Bank is www.psbank.com.ph. No information on the website should be considered or construed as part of the Offering Circular.

Strategy of the Bank

Throughout its more than 50 years of operation, the Bank's philosophy is that of being responsive to its clients' needs. While its current capitalization of ₱16.26 billion qualifies it to become a commercial bank, the Bank has decided to remain a thrift bank and use its resources to aggressively compete in retail banking.

The Bank will continue to harness inherent synergies with Metrobank but will remain resolute in differentiating itself in terms of markets and products. The Bank and Metrobank have distinct core market focus and have agreed on a coherent strategy on market segmentation. Operational synergies are achieved through coordination on branch expansion, sharing of integrated data and ATM infrastructure, coordination on group-wide concentration limits, and maximization of each institution's competitive advantage.

The Bank has been constantly at the forefront of developing new products to widen and expand its customer reach. The Bank made it simpler for its customers to avail auto loans via fast approval rates, low interest payments, flexible payment terms and convenient modes of payment. Technological applications were the engine powering the Bank's growth over the past few years. It has put in place continuous system and process improvement projects, which enabled it to deliver faster turnaround time for loan approvals.

In 2008, PSBank was focused on growing its core business amidst the global financial turmoil. To shore up funding for its loans and investments and to place the Bank in a strong liquidity position, the Bank launched two major deposit generation activities: the PSBank Monthly Millions Draw and the PSBank Save It Forward program. Through these new programs and intensified marketing efforts, the Bank was able to successfully raise its deposit levels.

In 2009, PSBank continued to invest in growing its various delivery channels. It opened its 24/7 Customer Service hotline and email addresses to make PSBank more accessible to its customers, anytime, anywhere. The Bank added more features to its Remote Banking facility to make it a safe and secure option for its customers, attracting a significant growth in users. The Bank strengthened its reach in the OFW market by launching the PSBank Overseas Filipino Savings Account. This account enabled all land and sea-based OFWs or any of their family members to have a savings account that does not require an opening or maintaining balance. PSBank also launched the PSBank Prime Rebate, the first and only rebate program in Philippine banking that rewards borrowers with rebates or savings for advance or excess loan payments.

In 2010, PSBank launched the Prepaid MasterCard, the all-in-one budget card that can be used as an ATM card, debit card, remittance card and Internet cash card for the budget-conscious. Internally, PSBank continued investing in strengthening and enhancing its IT infrastructure. These resulted to a faster turnaround time in loan applications which strengthened PSBank’s proposition of being the fastest and most innovative in addressing customer needs.

In 2011, PSBank launched the PSBank Debit MasterCard, a product which combines the functionality of a debit facility and a savings account in one card. It can be used for shopping, paying bills and making online purchases, both here and abroad. PSBank also introduced the PSBank Prepaid Mastercard, the PSBank Euro Time Deposit and the PSBank Euro Savings Account on the same year. It also made structural changes in the organization and adapted new channels for service delivery.

In 2012, PSBank introduced e-Credit to Micro, Small and Medium Enterprises. The service aimed to provide these companies with an alternative to manual payroll processing. The Bank also rolled out its Time Deposit System to automate the processing of TDs for clients. This allowed branches to focus more on product marketing and sales.

All these product launches continue to be in line with the Bank’s *“Simple Lang, Maaasahan”* (Simple and Reliable) line of products and services.

The Bank aims to maintain a strategic management discipline in serving the consumer market. To grow the business in the coming years, it will rely on increasing visibility and customer convenience by establishing more branches throughout the country. This will be complemented by the Bank’s continued improvements in customer profiling through its unique customer information system. This will be supported by having a customer-centric performance oriented culture within the Bank and an organizational structure which encourages employees to be flexible and motivated contributors.

Strategic Initiatives

PSBank has grown to become the second largest thrift bank in the Philippines today. Strategic initiatives have been undertaken to increase shareholder value, solidify the Bank's market leadership and sustain its growth momentum. However, these anticipated developments are not assured and actual results may materially differ as a result of risks and uncertainties the Bank faces.

Achieve Top Industry Standing through Consistent Focus on the Consumer Market. The Bank aims to achieve leading industry standing in the Thrift Bank sector. Although the Bank also caters to select corporate clients through its Large Enterprise Group, the Bank has focused on households as its target market for deposit and loan products. The growth potential of this market is anchored on projected higher domestic consumption due to increasing population and income levels

Redefining Business Divisions to Focus on Customer-Centricity. To meet the challenges in an intensely competitive market, the Bank will continue its initiative of reviewing, reorganizing and streamlining of business units to drive productivity and efficiency in the organization, and more so to pursue a customer-centric strategy. Using its customer information system coupled with a robust technology infrastructure, the Bank aims to analyze the demographics, transactions and product availments of all of its customers. Products and services are aligned with clients' interests and requirements while ensuring that standards are in place to measure the delivery of quality service.

Sustained Branch Expansion throughout the Country. The Bank is firm in its resolve to further increase its market share in the consumer banking industry. To achieve this strategic objective, the Bank will pursue the expansion of its branch footprint to improve customer convenience and visibility. The Bank aims to set-up branches, particularly in key provincial cities or municipalities, with sizable levels of deposits and demand for consumer loans. Along with branches, it will also expand its ATM network, further enhance its Internet banking facility and introduce mobile banking to improve customer access and enhance customer experience. The installation of more offsite ATMs is consistent with expanding its reach and becoming more visible in the market. Internet and Mobile Banking platforms provide 24/7 online real-time customer access and transaction processing.

Optimize Sales and Marketing Efforts. Aggressive marketing efforts begin in-branch by providing staff with adequate product and sales training and easy access to information on bank products, policies, and other activities via the in-house InfoChannel. In the marketplace, the Bank's television, radio, and print advertisements aim to increase brand awareness and reinforce the Bank's image as an innovative consumer bank. With the availability of a customer information system, predictive modeling can be applied so that client acquisition and cross-selling efforts can be more targeted.

Support Initiatives

Internal Processes. The Bank launched improvements and streamlining of internal processes to complement business growth. Various surveys were launched to enable the Bank to capture client perceptions and work on exceeding performance expectations.

Technology Applications. The Bank is looking to further develop its customer information system to assist in its customer-focus strategy. This system will allow the Bank to actively profile its clients and analyze their needs. In addition, the Bank is also continually working on integrating its systems where possible with Metrobank.

Resource Requirements. The Bank will continue to invest in the development of its people through continued training on sales, new products, risk appreciation, customer service and other development programs. The Bank also has appropriate incentive packages to encourage expansion of the customer touch points for the Bank's products.

Product Development, Communications and Marketing. The Bank utilizes various consumer research studies to develop new or enhance existing products and marketing programs. It will continue to measure customer satisfaction drivers such as speed in processing, complaint handling, and problem resolution, and, use the same as a feedback mechanism. The Bank utilizes external communications to effectively build and reinforce its story among its markets. The Bank has contracted the services of top agencies to launch its advertising campaigns and provide supplemental public relations efforts.

Business Activities

The Bank's principal business activities are organized as follows: Consumer Banking, Corporate Banking, Branch Banking and Treasury.

Segment Report

Contributions of the business segments to the Bank's operating results for the year ended 31 December 2013 is as follows:

	For the year ended 31 December 2013				
(In ₱ thousands)	**Consumer Banking**	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
Operating Income					
Interest income	1,798,034	492,637	6,128,314	608,251	**9,027,236**
Service fees and commission	220,196	49,405	770,794	-	**1,040,395**

(In ₱ thousands)	For the year ended 31 December 2013 Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Other operating income	46,827	157,687	254,046	4,067,022	**4,525,582**
Total Operating Income	2,065,057	699,729	7,153,154	4,675,273	**14,593,213**
Non-cash Expenses					
Depreciation and amortization	106,655	11,038	364,415	1,153	**483,261**
Provision for credit and impairment losses	748,974	91,839	1,298,749	-	**2,139,562**
Amortization of other intangible assets	26,650	4,793	36,451	560	**68,454**
Total non-cash expenses	882,279	107,670	1,699,615	1,713	**2,691,277**
Interest expense	-	-	1,703,983	636,432	**2,340,415**
Service fees and commission expense	16,474	3,696	57,667	-	**77,837**
Subtotal	16,474	3,696	1,761,650	636,432	**2,418,252**
Compensation and fringe benefits	395,481	89,349	1,664,982	9,883	**2,159,695**
Taxes and licenses	210,690	28,738	462,779	351,634	**1,053,841**
Occupancy and equipment-related costs	48,048	8,216	503,494	5	**559,763**
Security, messengerial and janitorial services	46,550	5,455	199,554	824	**252,383**
Miscellaneous	463,682	77,420	905,158	12,648	**1,458,908**
Subtotal	1,164,451	209,178	3,735,967	374,994	**5,484,590**
Income (Loss) before Share in net income of an associate and joint venture and income tax	1,853	379,185	(44,078)	3,662,134	**3,999,094**
Share in net income of an Associate and a Joint Venture	-	109,569	-	-	**109,569**
Income (loss) before income tax	1,853	488,754	(44,078)	3,662,134	**4,108,663**
Provision for Income Tax					**1,180,174**
Net Income					**2,928,489**

Source: PSBank

Consumer Banking

Consumer Banking principally handles individual customer deposits and provides consumer loans, and fund transfer facilities. The Bank's consumer lending business is predominantly consumption loans and real estate loans. Net of unearned discounts and allowance, consumption loans as of 31 December 2013 have grown 22.08% to ₱37.96 billion while real estate loans have grown 25.15% to ₱28.01 billion compared to the same period last year. It is also engaged in small, medium enterprise lending as well as personal loans. Personal loans are offered either on the basis of payments being made directly by the borrower or, for employees of participating companies, by deduction of payments directly from the borrower's salary. As of 31 December 2013, write-offs resulted to a decline in personal loans by -2.33% to ₱3.33 billion compared to the same period last year. Aside from the branches, personal loans are sourced through accredited loan agencies.

Retail deposit products include current and savings accounts ("CASA") and time deposits in peso and US Dollar.

The Bank's branch network is its main distribution channel. It also partners with auto dealers, property developers as well as loan agencies for its different products. In some provincial areas, the Bank has set-up sales desks as another distribution channel for its loan products. Currently, the Bank has 14 sales desks with plans to put up two additional sales desks in 2014. Credit decision-making for consumer loans utilizes a credit scoring process and is centralized in Head Office.

Currently, the Bank has the only loan rebate program in the market. This feature gives rebates to customers who make advance or excess loan payments. The Bank believes that product innovation, consistent service quality and speed in delivery are the key factors to grow market share.

Corporate Banking

Corporate Banking principally handles loans and other credit facilities for small and medium enterprises ("SMEs"), corporate and institutional customers. The banking products offered include credit lines, floor stock financing lines, standby letters of credit, domestic letters of credit, and deposit collateral loans. All loans are screened and approved by the Credit Committee.

The Bank lends across various industries with a significant portion of its loans to companies in other community, social and personal activities, real estate, wholesale and retail trade and public utilities.

As of 31 December 2013, the Bank's commercial loans grew by 10.55% to ₱12.42 billion compared to the same period last year.

Branch Banking

As of 31 December 2013, the Bank had 224 branches and has the most number of branches among the top five thrift banks in the country. By end-2014, the Bank is looking to open 20 new branches and end the year with a network of 244 branches. Branch expansion is key to the Bank's deposit growth strategy. However, instead of just targeting deposit growth, the branches are also mandated to increase their loan client base.

The Bank owns the premises it occupies for the Head Office in Makati City and 29 of its branches. These offices/branches are all in good condition and there is no mortgage or lien on any of these properties owned by the Bank.

The rest of the Bank's branch premises are under lease agreements. Terms of leases range from 1 to 20 years renewable under certain terms and conditions. Rentals charged to operations under these lease contracts amounted to ₱397.10 million for the year ended 31 December 2013.

Treasury

Treasury provides money market, trading, and treasury services, as well as manages the Bank's funding operations by use of treasury bills, government securities and placements with other banks. The group is composed of the Liquidity and Reserve Management Department, Foreign Currency Deposit Department, Government Securities Trading Department, and Treasury Marketing Department. Treasury products and services available through the group include peso and USD trading government securities, commercial papers sales and regular foreign exchange transactions.

All investment and portfolio limits are reviewed by Risk Management Committee ("RMC") and endorsed to the Board for approval. The basis for the limit setting is the risk tolerance appetite of the Bank and its budget.

Stop loss limits are monitored on a daily basis. Any breach in the stop loss limit is reported to the President and in the monthly RMC and Board meetings. In case of breach in stop loss limits, the trader is required to reduce or cut his position until the trader is within the approved limits.

Competition

The Bank continues to rank as second in terms of assets among thrift banks and is larger in terms of total resources compared with some commercial banks. The Bank competes aggressively in the field of retail and consumer banking. Competition has become even more challenging with a growing number of players in the consumer business and aggressive marketing campaigns by competitor banks. While there are many factors beyond its control, the Bank has integrated efficiencies into its operations to sustain its growth trajectory.

The Bank obtained a CAMELS rating of 3 from the BSP, based on its Report on Examination with a cut-off date of December 2011. Its latest BSP examination was concluded on November 2013 and its new CAMELS rating remains pending.

Customers/Clients

While the Bank's client base has been traditionally composed of big and small savers, PSBank has since refocused its strategy towards customers belonging to the Broad C market that includes employed individuals, professionals and business entrepreneurs.

As of 31 December 2013, the Bank services about 308,000 deposit accounts and 154,000 loan accounts. Many customers have remained loyal depositors and borrowers of the Bank through the years. There is no single customer that accounts for 20.0% or more of the Bank's deposit liabilities and loans.

Loan Portfolio

The Bank offers a wide range of consumer and business loans. For consumer loans, these include: Auto Loan with Prime Rebate, Flexi Personal Loan with Prime Rebate, Home Loan with Prime Rebate, Home Credit Line and Home Construction Loan. For business loans, these include SME Business Credit Line, Credit Line, Term Loans with Prime Rebate, Standby Credit Certification and Domestic Bills Purchase Line.

Industry Concentration and Product Type

The table below shows the Bank's gross loans classified by economic activity, as defined and categorized by the BSP.

(In ₱ millions)	**31 December**					
	2013	**%**	**2012**	**%**	**2011**	**%**
Real estate	27,043	30.86	24,289	31.60	19,114	28.93
Other community, social, and personal activities	22,518	25.70	18,435	23.98	18,783	28.43
Wholesale and retail trade	17,641	20.13	17,718	23.05	14,814	22.42
Public Utilities	6,432	7.34	5,720	7.45	5,211	7.89
Banks, insurance and other financial institutions	5,129	5.85	3,543	4.61	1,817	2.75
Manufacturing	1,612	1.84	1,355	1.76	741	1.12
Services	1,105	1.26	754	0.98	576	0.87
Mining and quarrying	43	0.05	18	0.02	14	0.02
Agriculture	13	0.01	67	0.09	6	0.01
Others	6,096	6.96	4,965	6.46	4,991	7.56
Total	**87,632**	**100.00**	**76,864**	**100.00**	**66,067**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

The Bank employs product limits, single borrower limit, DOSRI limit and Metrobank Group lending limits in its exposures. The RMC oversees the system of limits to discretionary authority that the Board delegates to Management and ensures that the system remains effective, limits are observed, and immediate corrective actions are taken whenever limits are breached. These limits are compliant to pertinent BSP regulations.

The table below shows the Bank's gross loans classified by type of product.

(In ₱ millions)	**31 December**					
	2013	**%**	**2012**	**%**	**2011**	**%**
Commercial (corporates and SMEs)	13,424	15.32	12,433	16.18	10,250	15.51
Auto	41,146	46.95	36,216	47.12	31,163	47.16
Mortgage	28,776	32.84	22,654	29.47	19,040	28.83
Personal	4,275	4.88	5,550	7.22	5,603	8.48
Others	11	0.01	11	0.01	11	0.02

(In ₱ millions)	31 December					
	2013	%	2012	%	2011	%
Total	**87,632**	**100.00**	**76,864**	**100.00**	**66,067**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

Over the last three years, the Bank's loan portfolio has been concentrated with auto and real estate loans. As of 31 December 2013, auto loans have grown 22.08% and real estate loans have grown 25.15% from their respective levels in 2012. With the Bank's continued investments in information technology, greater automation and integration of processes have been achieved. This has also brought out improved efficiency through faster turn-around time for credit decisions, more uniform compliance with credit policies and better profit monitoring for its loan portfolio. As a result, the Bank offers one of the fastest turn-around times for mortgage and auto loan applications in the industry with a one day turn-around time for Auto Loans, five days for Home Loans and three days for Flexi/Personal Loans.

Maturity

The table below shows the Bank's gross loans by maturity.

(In ₱ millions)	31 December					
	2013	%	2012	%	2011	%
Due within one year	10,796	12.32	11,442	14.89	10,517	15.92
Due within one to five years	46,501	53.06	42,619	55.45	38,450	58.20
Due after five years	30,335	34.62	22,803	29.66	17,100	25.88
Total	**87,632**	**100.00**	**76,864**	**100.00**	**66,067**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

Loans due within one year consist of personal loans. Loans due within one to five years consist primarily of auto-loans. Loans due after five years consist primarily of real estate loans for housing purchases.

(In ₱ millions)	31 December 2013					
Breakdown of Loans by Type and Maturity	Due within 1 year	%	Due within 1-5 years	%	Due after 5 years	%
Auto	1,784	16.51	38,480	82.75	881	2.90
Personal	2,546	23.58	1,102	2.37	-	-
Mortgage	2,873	26.62	4,543	9.77	21,360	70.42
Commercial	3,266	30.25	2,267	4.88	7,892	26.01
Deposit Collateral Loan	165	1.53	-	-	-	-
Employee	151	1.40	109	0.23	202	0.67
PDC Discounting Line	11	0.11	-	-	-	-
Total	**10,796**	**100.00**	**46,501**	**100.00**	**30,335**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

Borrower

The table below shows the Bank's gross loans by type of borrower.

(In ₱ millions)	31 December					
	2013	%	2012	%	2011	%
Individual	72,807	83.08	63,982	83.24	56,409	85.38
Single Proprietorship	3,008	3.43	2,251	2.93	1,160	1.76
Cooperative / Corporation	11,817	13.49	10,631	13.83	8,498	12.86
Total	**87,632**	**100.00**	**76,864**	**100.00**	**66,067**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

Size

The table below shows the Bank's gross loans by principal amount.

(In ₱ millions)	31 December	
	2013	%
Less than 1,000,000	45,306	51.70
1,000,001 to 2,000,000	18,741	21.39
2,000,001 to 3,000,000	5,531	6.31
More than 3,000,000	18,054	20.60
Total	**87,632**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

The BSP currently imposes a limit on the size of the Bank's financial exposure to any single person or entity or group of connected persons or entities to 25.0% of the Bank's net worth. As of 31 December 2013, the Bank has complied with the single borrower's limit for all of its loans.

Secured and Unsecured

The table below shows the Bank's secured and unsecured loans according to type of collateral.

(In ₱ millions)	31 December					
	2013	%	2012	%	2011	%
Secured	70,389	80.32	60,839	79.15	52,284	79.14
Real estate	28,384	32.39	23,586	30.68	20,314	30.75
Deposit hold-out	439	0.50	548	0.71	374	0.56
Chattel	41,146	46.95	36,215	47.12	31,163	47.17
Others	420	0.48	490	0.64	433	0.66
Unsecured	17,243	19.68	16,025	20.85	13,783	20.86
Total	**87,632**	**100.00**	**76,864**	**100.00**	**66,067**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

Pricing and Rating

Pricing of loans follows the approved mechanics in the respective Product Manuals. The Bank utilizes credit scoring models for its loans. Upon booking of loans, the Bank rates accounts in a scale of 1 to 10, with 1 being the best. This scale is based on the board's approved interim credit rating system which utilizes both the credit scoring results and the BSP loan grading system. These are mapped to high grade, standard, substandard and impaired to meet PFRS requirements. In addition to credit scoring, the Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators.

Credit Policy and Loan Review

Credit proposals are approved at the Credit Committee level appropriate to the size and risk of each transaction in conformity with corporate policies and procedures in regulating credit risk activities. The Bank's Executive Committee may approve deviations or exceptions, while the Board approves material exceptions such as large exposures, loans to directors, officers, stockholders and other related interests ("DOSRI"), and loan restructuring. Credit delegation limits are identified, tracked and reviewed at least annually by the head of Credit Administration Group together with the Credit Risk Manager.

The Bank maintains credit records and documents on all borrowings and capture transaction details in its loan systems. The credit risk policies and system infrastructure ensure that loans are monitored and managed at all times. The Bank's Management Information System provides statistics that its business units need to identify opportunities for improving rewards without necessarily sacrificing risk. Statistical data on product, productivity, portfolio, profitability, performance and projections are made available regularly. The Bank conducts regular loan review through the RMC, with the support of the RMO. The Bank examines its exposures, credit risk ratios provisions and customer segments.

Accounts that turn delinquent are monitored via an automated Collections Systems. Approved collection efforts and strategies are defined in the system. Delinquent accounts are outsourced to collection agencies which get paid based on amounts collected. Loans with collaterals are foreclosed to recover losses. Restructuring of loans may be pursued in order to improve recovery of loan, and not to delay recognition of losses. Loans are subjected to impairment allowance whenever there is evidence of difficulty in generating recovery of the loan.

The Bank's restructured loan portfolio has been continuously dwindling. Majority of the big ticket accounts have been fully settled. Most of the successfully restructured accounts are considered current following a seasoning period of six consecutive installment periods. These have been reclassified to performing status and loan grades were upgraded as well.

BSP Classification

In categorizing its loan portfolio, the Bank follows the BSP's categorization of risk assets according to their risk profile. All risk assets, in particular the Bank's loan portfolio, are either classified or unclassified. Those loans which do not have a greater than normal risk, and for which no loss on ultimate collection is anticipated, are unclassified. All other loan accounts, comprising those loan accounts which have a greater than normal risk, are classified as "especially mentioned", "substandard", "doubtful" or "loss" assets, and the appropriate loan loss allowance (in accordance with BSP guidelines) is made as follows:

BSP Risk Classification	% Reserves
Especially mentioned	5
Substandard (secured)	10
Substandard (unsecured)	25
Doubtful	50
Loss	100

The following is a summary of the risk classification of the Bank's gross loans and allowance for probable loan losses.

(In ₱ millions)	31 December					
Risk Classifications	**2013**	**%**	**2012**	**%**	**2011**	**%**
Especially mentioned	5,332	6.08	5,134	6.69	3,092	4.68
Substandard (unsecured)	1,008	1.15	586	0.76	426	0.65
Substandard (secured)	1,427	1.63	555	0.72	524	0.79
Doubtful	1,152	1.31	730	0.95	722	1.09
Loss	1,555	1.78	2,493	3.24	2,567	3.89
Total Classified	10,474	11.95	9,498	12.36	7,331	11.10
Unclassified	77,158	88.05	67,366	87.64	58,736	88.90
Total	87,632	100.00	76,864	100.00	66,067	100.00
Allowance for Probable Losses						
Specific	3,454	80.61	3,847	84.91	3,481	86.83
General	831	19.39	684	15.09	528	13.17
Total	4,285	100.00	4,531	100.00	4,009	100.00

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

Non-Performing Loans

Unless otherwise stated, the presentation of the Bank's classification of its loan portfolio and related ratios in this section, including impairment losses and allowance for probable losses are on the basis of BSP guidelines.

Under BSP guidelines, loans are classified as non-accruing (or past due) if (i) any repayment of principal at maturity or any scheduled payment of principal or interest due quarterly (or longer) is not made when due and (ii) in the case of any principal or interest due monthly, if the amount due is not paid and has remained outstanding for three months. In the case of (i), such loans are treated as nonperforming if the payment is not made within a further 30 days. In the case of (ii), such loans are treated as non-performing upon the occurrence of the default in payment.

The following table shows the Bank's non-performing loans, non-performing assets, allowances and restructured loans.

	31 December		
	2013	2012	2011
Non-performing loans (NPL), net of BSP fully provided loans	1,111,016,981	1,831,214,047	1,590,623,675
Total gross loans, net of BSP fully provided loans	99,659,410,485	80,346,744,987	73,933,628,544
NPL as a percentage of gross loans (%)	1.11%	2.28%	2.15%
Real and other properties acquired (ROPOA, net of impairment)	2,589,408,311	2,622,918,872	2,802,259,434
Non-performing assets (NPA)	6,556,073,936	7,374,599,828	7,317,586,656
NPA as a percentage of total assets (%)	5.04%	6.35%	6.08%
NPA as a percentage of adjusted loans (%)	8.02%	10.83%	12.96%
Allowance for probable loan losses	3,892,694,781	4,127,115,735	3,679,546,819
Allowance for probable losses (ROPOA)	306,746,232	241,516,279	245,752,917
Allowance for probable loan losses as a percentage of total NPL (%)	106.36%	91.51%	86.18%
Allowance for probable losses as a percentage of NPA (%)	11.85%	55.96%	50.28%
Total restructured loans (gross of allowance)	577,881,557	753,298,838	834,579,867

Source: PSBank

Deposit Liabilities

The Bank offers a wide range of deposit products that primarily cater to consumer and retail customers. Deposit products include: Kiddie and Teen Savers Accounts, Instant ATM Savings, Regular Passbook Savings, Passbook with ATM, Overseas Filipino Savings, Regular Checking, Premium Checking, Prime Time Deposit, Peso Time Deposit, 1,2,and 3-Year Time Deposit, Dollar Savings, Dollar Time Deposit, Euro Savings, and Euro Time Deposit.

The following table shows the Bank's deposit liabilities according to type.

(in ₱ millions)	31 December		
	2013	2012	2011
Demand	9,051	7,400	11,422
Savings	16,181	12,388	11,668
Time	81,287	74,836	78,460
Total	**106,519**	**94,624**	**101,550**

Source: PSBank

Peso low-cost to total deposit ratio is 22.40% while total low-cost to total deposit ratio is 23.69%. The Bank's cost of deposit funds is typically at par with its competitors. The Bank lengthened the tenor of its funding liabilities by the introduction in 2001 of Prime TD for Peso Deposits and in 2008 of five-year USD TD for Dollar Deposits.

The following table shows the Bank's deposit liabilities by currency.

(in ₱ millions)	31 December					
	2013	%	2012	%	2011	%
Current	**9,051**	**8.50**	**7,400**	**7.82**	**11,422**	**11.25**
Peso	9,051		7,400		11,422	
Foreign						
Savings	**16,181**	**15.19**	**12,388**	**13.09**	**11,668**	**11.49**
Peso	14,805		11,338		10,702	
Foreign	1,376		1,050		966	
Time	**81,287**	**76.31**	**74,836**	**79.09**	**78,460**	**77.26**
Peso	74,577		66,736		67,930	
Foreign	6,710		8,100		10,530	

(in ₱ millions)	31 December					
	2013	**%**	**2012**	**%**	**2011**	**%**
Total	**106,519**	**100.00**	**94,624**	**100.00**	**101,550**	**100.00**

Source: PSBank

As of 31 December 2013, Peso deposits comprise 92.41% of the Bank's total deposit liabilities while the balance is from dollar deposits. Although the branch network is spread over the country, three-fourths of total deposit liabilities are from Metro Manila. Large fund providers (clients with deposits of at least ₱100.00 million) are monitored by Market Risk. Large fund providers comprise approximately one fourth of total deposit liabilities as of 31 December 2013.

Capital Adequacy

The following table shows the Bank's capital base by category.

(in ₱ millions)	**31 December**		
	2013	**2012**	**2011**
Tier 1 capital	15,292	13,840	12,047
Paid-up common stock	2,403	2,403	2,403
Additional paid-in capital	2,818	2,818	2,818
Surplus	7,220	6,316	4,699
Undivided profits	2,892	2,370	2,181
Cumulative foreign currency translation	-41	-67	-54
Deductions from Tier 1	731	1,494	1,560
Unsecured DOSRI	174	167	118
Deferred income tax	527	1,297	1,412
Goodwill	30	30	30
Total Tier 1 capital	14,561	12,346	10,487
General loan loss provisions	831	684	578
Tier 1 capital	14,561	12,346	10,487
Tier 2 capital	3,799	3,652	578
Deduction from Tier 1 & Tier 2 Capital	1,341	1,264	1,234
Net Tier 1 Capital	13,891	11,714	9,831
Net Tier 2 Capital	3,128	3,020	-
Unsecured Subordinated debt (tier 2)	2,968	2,968	-
Total Qualifying Capital	17,019	14,734	9,831

Source: PSBank

As of 31 December 2013, capital adequacy ratio was at 16.92%. This is expected to increase to 17.30% in 2014 based on Basel III computation, inclusive of this planned ₱3.00 billion Tier 2 issuance in the first half of 2014.

As the thrift bank arm of Metrobank, the Bank is compliant with Basel III requirements and undergoes an annual ICAAP exercise. The target of the Bank is above 10.00% CAR even with the expansion of its loan portfolio.

Basel III Impact

With the implementation of Basel III, the following are the potential impact to the Bank's future operations:

- Higher minimum Risk-based Capital Adequacy Ratio ("RCAR") in view of the increase in the minimum common equity capital ratio plus the provisions for conservation and counter-cyclical buffers, and
- Reduction of Qualifying Capital in view of capital instruments that no longer qualify as non-core Tier 1 or 2 capital.

Hence, there is for sure an even greater pressure to protect against losses and further build up the Bank's core capital components and to more effectively manage its risk assets. Extent of impact, however, cannot be clearly quantified yet.

The Bank will also have to provide additional liquid assets to comply with the new Liquidity Coverage Ratio that requires a bank to hold sufficient high-quality liquid assets to cover its total net cash flows over 30 days. In addition, it has to provide additional buffer for the compliance of the Net Stable Funding Ratio that requires the available amount of stable funding to exceed the required amount of stable funding over a one-year period of extended stress.

Risk Management

Responsibility for managing risks rests on every employee of the Bank. The Bank's Board and senior management are actively involved in planning, approving, reviewing, and assessing risks through various committees. The parameters they set govern all their risk-taking activities. In 2013, the Bank implemented a facility risk rating model for SME loans as an additional tool to the Bank's existing borrower risk rating model and qualitative assessment for credit extension. The Bank also enhanced stress testing models and implemented stress limits for consumer loans.

Risk Management Structure

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

The Risk Oversight Committee (ROC) is comprised of at least three members of the Board, including at least one independent director, and a chairperson who is a non-executive member. They possess expertise and knowledge of the Bank's risk exposures, which enable them to develop appropriate strategies for preventing or minimizing the impact of losses.

The Board may also appoint non-Directors to the ROC as part of the Metrobank Group's risk oversight measures. However, only Bank Directors shall be considered as voting members of the ROC. Nonvoting members are appointed in an advisory capacity.

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

RMO is independent from executive functions and business line responsibilities, operations and revenue-generating functions. It reports directly to the Board through the ROC.

The RMO supports the ROC in carrying out its responsibilities by:

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

Risk Management is responsible for:

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

Various Types of Risk

Credit Risk

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

The Bank's product manuals contain business plans and define the business parameters by which credit activity is to be performed. Before extending a loan, the Bank observes a system of checks and balances, including the approval of at least two credit officers through the Credit Committee (Crecom), Executive Committee (Excom), or the Board. The ROC reviews the Bank's business strategies and ensures that revenue-generating activities meet risk standards. The Bank holds regular audit across the organization. Its Board – through the Excom, Crecom, and ROC – ensures that all business segments follow sound credit policies and practices.

The Bank manages risk concentration by type of individual or group of borrowers, by geographical region, and by industry sector. It assesses the credit quality of financial assets using the BSP's credit classifications. The Bank uses credit scoring models and decision systems for consumer loans, and borrower risk rating and facility risk rating models for SME loans, as approved by the Board.

The Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators. In 2013, enhanced stress testing models and stress limits were implemented for consumer loans.

Market Risk

This covers the areas of trading, interest rate, and liquidity risks. Trading market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments. Interest rate risk arises from movements in interest rates. Liquidity risk is the inability to meet obligations when they fall due without incurring unacceptable losses.

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

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

Trading Market Risk

The Bank's trading portfolios are currently composed of peso and dollar-denominated sovereign debt securities that are marked-to-market daily.

The Bank uses Value-at-Risk (VaR) to measure the extent of market risk exposure arising from these portfolios. VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model is based on a historical simulation methodology with a one-day holding period and a 99% confidence level.

The Bank also performs back testing to validate the VaR model, and stress testing to determine the impact of extreme market movements on the Bank's portfolios. It has established position limits for its trading portfolios and closely monitors its daily profit and loss against loss triggers and stop-loss limits.

To a certain extent, the Bank also carries foreign exchange (FX) risk. It is the Bank's policy to maintain exposures within approved position, stop loss, loss trigger, VaR limits and to remain within regulatory guidelines. The Bank also uses VaR to measure market risk arising from its FX exposure. The Bank uses its BSP-approved Type 3 Derivative License for plain vanilla FX forwards to manage its FX risk against adverse exchange rate movements.

Structural Interest Rate Risk

The interest rate sensitivity gap report measures interest rate risk by identifying gaps between repricing dates of assets and liabilities. The Bank's sensitivity gap model calculates the effect of possible rate movements on its interest rate profile.

The Bank uses the sensitivity gap model to estimate its Earnings-At-Risk (EAR) should interest rates move against the Bank's interest rate profile. The Bank's EAR limits are based on a percentage of the Bank's projected earnings and capital for the year. The Bank also performs stress-testing analysis to measure the impact of various scenarios based on interest rate volatility and shift in the yield curve.

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

Liquidity Risk

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

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

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

The Bank discourages dependence on Large Funds Providers (LFPs) and monitors the deposit funding concentrations so that it will not be vulnerable to a substantial drop in deposit level should there be an outflow of large deposits.

ALCO is responsible for managing the liquidity of the Bank while RMO and ROC review and oversee the Bank's overall liquidity risk management.

Operational Risk

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

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

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

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

The Bank likewise has a Business Continuity Plan and a Disaster Recovery Program that are reviewed and tested annually on a per segment and bankwide basis to ensure their effectiveness in case of business disruptions, system failures and disasters.

Technology Risk

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

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

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

Legal Risk

Legal risk is the potential loss due to nonexistent, incomplete, incorrect, and unenforceable documentation that the Bank uses to protect and enforce its rights under contracts and obligations.

A legal review process, which its Legal Department performs, is the primary control mechanism for this type of risk to ensure that the Bank's contracts and documentation adequately protects its interests and complies with applicable legal and regulatory requirements.

Regulatory Risk

Regulatory Risk, also known as Compliance Risk, covers the potential loss from non-compliance with laws, rules and regulations, policies and procedures, and ethical standards.

The Bank recognizes that compliance risk can diminish its reputation, reduce its franchise value, limit its business opportunities, and reduce its potential for expansion. Thus, the Bank, guided by its Compliance Office, continuously promotes a culture of compliance.

Strategic Risk

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper resolution of conflicts, and slow response to industry changes.

Strategic risk can influence the Bank's long-term goals, business strategies, and resources. Thus, the Bank utilizes both tangible and intangible resources to carry out its business strategies. These include communication channels, operating systems, delivery networks, and managerial capacities and capabilities.

Reputational Risk

Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services, or manage existing relationships. The risk may expose the Bank to litigation, financial loss, or a decline in customer base.

All employees are responsible for building the Bank's reputation and exercising an abundance of caution when dealing with customers and communities.

Recent Fraud Cases or Money Laundering Cases

There have been no significant fraud nor any known money laundering cases recently encountered.

Research and Development

The Bank utilizes various consumer research studies to develop new or enhance existing products and marketing programs. It maximizes the use of customer surveys to measure customer satisfaction drivers such as speed in processing, complaint handling and problem resolution, and as a feedback mechanism, to improve customer service. The Bank also supports heavily its products and service delivery with relevant technology applications.

Involvement in Certain Legal Proceedings

Several suits and claims relating to the Bank's lending operations and labor-related cases remain unsettled. In the opinion of the management, these suits and claims, if decided adversely, will not involve sums having material effect on the financial statements.

Compliance with Leading Practices on Corporate Governance

The Bank sees compliance with applicable laws, rules and regulations as a minimum requirement. Going beyond such minimum is the true essence of good corporate governance. It always aims to continually build up the trust and confidence of stakeholders by running its business in a prudent and sound manner, being fair and transparent in all dealings, providing reliable and better service in response to the ever-growing expectations of customers, and working with integrity and accountability.

Core Governance Policies

The policies and guidelines embodied in the Bank's Corporate Governance Manual, as posted in its website, www.psbank.com.ph, primarily revolve around the following three (3) basic values:

Fairness

The Bank sees to it that all its dealings with counterparties and other stakeholders are fairly conducted. It ensures that all such dealings, especially with related parties, are made in the regular course of business and upon terms not less favorable to the Bank than those offered to others. It is for this particular reason that the Bank initiated the creation of its Board-level Related Party Transactions Committee (RPTC) to help ensure that transactions with related parties are conducted at arms-length and that the Bank's resources are not misappropriated, in accordance with guidelines and procedures in handling related party transactions.

The Bank also ensures that all stockholders are treated equally without discrimination by preserving all stockholders' rights and protecting minority stockholders' interests including the latter's right to nominate candidates to the Board of Directors.

Integrity & Accountability

The Bank upholds at all times the value of honesty as a best policy. It believes that its reputation precedes the Bank in the business of trust and confidence. The Bank continues to enhance a working culture of integrity, guided by a Code of Conduct that defines the standards that it must follow in all its business dealings and relationships**.**

Its Code of Conduct includes provisions on:

- a discussion on the disciplinary process;
- general policies to establish a professional working environment and secure a favorable reputation for the Bank;
- corrective measures for unacceptable behavior or failure to comply with rules, policies and procedures;
- schedule of penalties for attendance and punctuality, attire requirements, conduct and behavior, dishonesty, health, safety and security, reporting of violations, and information security; and
- provisions on management of personal finances, conflict of interest, anti-sexual harassment, non-disclosure of information and insider information.

Transparency & Open Communication

The Bank abides by the various disclosure requirements of the *Bangko Sentral ng Pilipinas* (BSP), the Securities and Exchange Commission (SEC), and the Philippine Stock Exchange (PSE) as a publicly-listed company. It ensures that it is transparent to its shareholders by posting the latest public disclosures on the Investor Relations section of the Bank's website and in press releases. These include disclosures on financial performance updates, new products and services, dividend declarations, and other corporate developments. The Bank also maintains an open communication line and use feedback from stakeholders to develop better policies, products and services. The Bank likewise accommodates requests for information pertaining to the management of the Bank, stockholders rights or any other bank-related matters, while remaining mindful of disclosure limitations under existing laws on bank deposits secrecy and data privacy.

The Bank's Corporate Governance Manual serves as a valuable guide and reference in the implementation of the corporate governance rules and regulations of both the BSP and the SEC. It is kept updated on relevant regulatory issuances as well as best industry standards and practices.

Governance Structure

Board Oversight

Board of Directors. The Board sets the Corporate Governance tone in the organization by ensuring adherence to its principles and standards. It is accountable to the Bank's stakeholders in running the Bank in a prudent and sound manner. It is primarily responsible for approving and overseeing the implementation of strategic objectives, risk strategy, corporate governance and corporate values.

There are a total of nine (9) directors in the Board who are all qualified business professionals with the required expertise and experience in directing the Bank's strategic path.

The Bank has consistently maintained the presence of independent directors who provide independent judgment, outside experience and objectivity. Of the nine (9) members of the Board, three (3) are independent directors, including the Board Chairman. This is more than the required minimum number of independent directors.

The Board Chairman provides active leadership by ensuring that the Board and its different committees function effectively, including maintaining a relationship of trust among Board members. He also ensures that the Board follows a sound decision-making process.

Individual directors are tasked to observe the fit and proper rule. They are expected to conduct fair business dealings, avoid conflict of interest, and observe confidentiality. They must act honestly, judiciously and in good faith, and uphold the best interests of the Bank and its stakeholders. They must also devote time and attention to their duties and responsibilities and contribute to the Board's decision-making process. They must exercise independent judgment and have a working knowledge of laws, rules and regulations applicable to the Bank. With respect to the training and continuing education of directors, eight (8) of them attended in 2013 an Anti-Money Laundering (AML) seminar entitled "Republic Act Nos. 10167 & 10365 and AML Risk Rating System" as conducted by the BSP Anti-Money Laundering Specialist Group (AMLSG) Head.

The Board has access to the Corporate Secretary who manages the flow of information to the Board prior to the meetings. All Directors are provided with documents on the Bank's financial and operational performance, committee activities, regulatory developments, and items for their information and approval before actual Board meetings. The Board also reviews and approves all manuals to ensure that regulatory changes and best practices are included. They have access to a permanent compilation of documents related to past Board activities. They can readily seek clarification from Senior Management should they have concerns about the Bank or any of the items submitted for their consideration.

A number of Board-level committees were created to aid the Board in its various tasks to ensure efficiency and provide greater focus. Three of these committees are in charge of governance oversight functions:

- **The Corporate Governance Committee** is tasked to assist the Board in fulfilling its duties and responsibilities and monitoring the Bank's adherence to the corporate governance principles and guidelines set forth in the PSBank Corporate Governance Manual. It is also oversees the development and effective implementation of the Bank's compliance system. The Committee is composed of four (4) Directors, two (2) of whom are independent directors, including the committee chairperson. The Committee meets monthly and is supported by the Compliance Office (CO).

- **The Risk Oversight Committee** is responsible for the development and oversight of its risk management program. The Committee is composed of four (4) Directors, including the committee chairperson who is an independent director and two (2) non-voting members appointed as advisors. The members possess a range of expertise and adequate knowledge of its risk exposures which is needed in preventing or minimizing losses. The Committee meets monthly and is supported by the Bank's Risk Management Office (RMO).
- **The Audit Committee** is designated to provide independent oversight of internal controls and financial reporting, risk management, ethical environment, compliance with laws and regulations, and the internal and external audit activities. The Committee is composed of three (3) Directors, two (2) of whom are independent, including the committee chairperson. These members have auditing, accounting or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Bank. The Committee meets monthly and is supported by the Internal Audit Group (IAG).

Other Board-level committees are as follows:

- **The Executive Committee** is tasked to regularly review and approve credit proposals within its limits. It recommends additional conditions and requirements on loan applications for Board approval. The Committee is composed of four (4) Directors including the President and a credit representative from parent-Metrobank.
- **The Related Party Transactions Committee** is tasked to assist the Board in ensuring that transactions with related parties are reviewed, appropriate restrictions are followed, and corporate resources are judiciously used. The Committee is composed of three (3) Directors, two (2) of whom are independent directors, including the committee chairperson.
- **The Trust Committee** is a special committee tasked to be primarily responsible for overseeing the fiduciary activities of the Bank. The Committee is composed of five (5) members: the President, the non-voting Trust Officer, two (2) non-executive directors and an independent director. The Committee Chairperson should be a non-executive director.
- **The Nominations Committee** is tasked to review and evaluate all nominees to the Board. The Committee is composed of three (3) Directors, two (2) of whom are independent, including the committee chairperson. The Committee is duly guided by its charter, as well as BSP guidelines for the qualification and disqualification of directors found in the Manual of Regulations for Banks.
- **The Compensation and Remuneration Committee** is tasked to establish a formal and transparent procedure for developing a policy on executive remuneration. The Committee is composed of three (3) members of the Board, two (2) of whom are independent directors, including the committee chairperson. The Human Resources Group (HRG) Head sits in the Committee as a resource person.

Senior Management. The PSBank Senior Management Team, headed by the President as the Chief Executive Officer (CEO), consists of a core group of senior officers who manage the Bank's day-to-day operations and business affairs. They exercise good governance by ensuring that the line managers under their respective areas of responsibility execute their activities in a manner that is consistent with Board-approved policies and procedures that are in turn aligned with applicable laws, rules and regulations as well as standards of good practice.

Management Committees. Likewise to achieve efficiency and provide greater focus for the Bank's Senior Management in overseeing key areas of banking operations, various Management-level committees were also created:

- **Assets and Liabilities Committee (ALCO)** which is tasked to manage the Bank's assets and liabilities consistent with its liquidity, capital adequacy, growth, risk tolerance & appetite and profitability goals.
- **Credit Committee (CreCom)** which is tasked to regularly review and approve credit proposals within the authority and limits provided by the Board.
- **Anti-Money Laundering Compliance Committee (AMLCC)** which is tasked to assist the Bank's Compliance Office in reviewing, managing and monitoring the effectiveness of the Money Laundering & Terrorism Financing Prevention Program (MLTFFP) and related policies and procedures to ensure continuing compliance with the provisions of the Anti-Money Laundering Act (AMLA) as amended, its Revised Implementing Rules & Regulations (RIRRs) and BSP Anti-Money Laundering regulations.

- **Outsourcing Oversight Committee (OOC)** which is tasked to oversee the accreditation of service providers, performance monitoring, post-implementation reviews and contract renewals.
- **IT Steering Committee (ITSC)** which is tasked to cohesively monitor IT performance and institute appropriate actions to ensure achievement of desired results. It is accountable for designing and implementing Board-approved Information Technology Risk Management System (ITRMS).
- **Emergency Committee (EMCOM)** which is tasked to manage and monitor the effective implementation of the Bank's Business Continuity Plan (BCP). It aims to provide the Bank the capability to continue its critical functions and processes by identifying, assessing and managing emergency scenarios and other business interruptions.
- **Policy Committee (POLCOM)** which is tasked to resolve policy-related issues which require escalation or cross-functional discussion for resolution.
- **Personnel Committee (PERCOM)** which is tasked to assist Senior Management in evaluating the performance and career growth/advancement of employees, deciding on employee offenses/administrative cases and in maintaining personnel policies and procedures including the Bank's Code of Conduct.
- **Retirement Committee (RETCOM)** which is exclusively tasked to administer the Gratuity and Retirement Benefit Plan.

The Bank's compliance, risk management and internal audit functions are the forerunners in the Bank's never-ending drive to promote the highest standards of good corporate governance across all its business operations.

Compliance

Ensuring compliance with applicable laws, rules & regulations, as a minimum requirement, is a collective duty and team effort. It begins with the Board and Senior Management at the top down the line to various business and operating units in accordance with the Board-approved compliance system referred to as Compliance Program, the design and implementation of which is overseen and administered by the Compliance Office led by the Bank's Chief Compliance Officer (CCO).

The Compliance Program adopts a three-pronged, risk-based approach to effectively manage business risks and ensure compliance with pertinent banking laws, rules and regulations, codes of conduct, policies and standards of good practice. Its priority, focus and compliance testing frequency depends on the pre-assessed level of risk a unit is exposed to insofar as business risks relative to compliance with pertinent banking laws, rules and regulations, codes of conduct, sound policies and standards of good practice are concerned.

This three-pronged strategy is operated by three key players: (1) the line units at the 1st line of defense being the business risk owners and managers, (2) Compliance Office at the 2nd line of defense as the business risk overseers, and (3) Internal Audit Group (IAG) at the 3rd line of defense as the independent assurance provider.

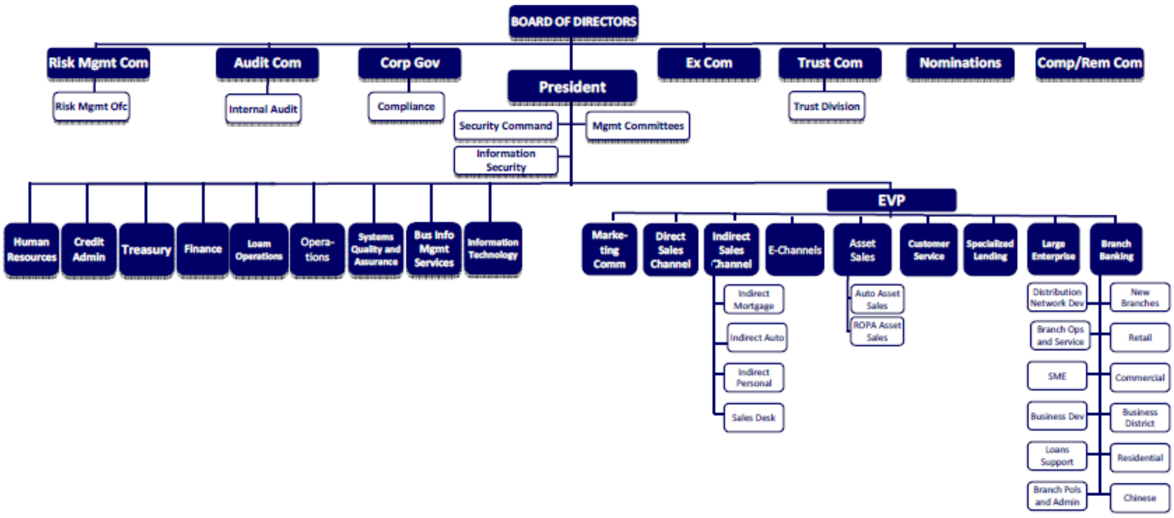
Aside from monitoring and controlling compliance risk, the Bank's Chief Compliance Officer also tracks the Bank's adherence to the Corporate Governance Manual. Cases of non-compliance are required to be reported to the Board Chairman who ensures due process and determines appropriate sanctions.

The PSBank Compliance Office continuously strives to maintain a strong compliance culture amidst the ever-dynamic regulatory landscape in the banking industry by proactively identifying, assessing and addressing emerging compliance issues; vigorously promoting continuing education through formal/informal trainings, compliance awareness testing, compliance checking, and advisory service through a clear and open communication line; and fostering good corporate governance culture by benchmarking against industry best practices and standards.

MANAGEMENT, EMPLOYEES, AND SHAREHOLDERS

Organizational Chart

The figure below shows the Bank's organizational chart as of 31 December 2013.



Directors

The names, positions, and educational attainment of the Bank's directors follow. The members of the Board of Directors are elected at the Annual Stockholders' Meeting and hold office until the next annual meeting and their respective successors have been elected.

Name	Position
Jose T. Pardo	Chairman / Independent Director
Arthur V. Ty	Vice Chairman
Vicente R. Cuna, Jr.	Director / President
Benedicto Jose R. Arcinas	Independent Director
Samson C. Lim	Independent Director
Maria Theresa G. Barretto	Director
Joaquin Aligguy	Director
Margaret Ty Cham	Director
Jeanne Frances T. Chua	Director

JOSE T. PARDO, Chairman / Independent Director

Chairman since 2003. Chairman/ Independent Director, Philippine Stock Exchange, Securities Clearing Corporation of the Philippines, Bank of Commerce. Chairman, EC Pay Network Inc., Franchise Investment Holdings Inc., De La Salle University, Inc., ECOP Council of Business Leaders, PCCI Council of Business Leaders, Philippine Business Center Inc., Foundation for Crime Prevention, Assumption (Antipolo), EDSA People Power Foundation, Philippine-Japan Vocational Technical Foundation. Co-Chairman, De La Salle Philippines. Vice Chairman, EDSA People Power Commission, Office of the President. Independent Director, JG Summit Holdings, Inc. Director, National GRID Corporation of the Philippines and ZNN Radio Veritas. First graduate of the Harvard-DLSU Advisory Program. BS Commerce-Accountancy and MBA, De La Salle University.

ARTHUR V. TY, Vice Chairman

Vice Chairman since 2001. Chairman, Metropolitan Bank and Trust Company; GT Capital Holdings Inc.; GT Metro Foundation Inc.; Metropolitan Bank (China) Ltd.; and FerumCee Inc. Chairman/ President, NoveFerum Holdings, Inc. Chairman/Director, Grand Titan Capital Holdings, Inc. and Global Treasure Holdings, Inc. Vice Chairman, Metrobank Foundation, Inc. and Great Mark Resources

Corporation. Vice Chairman/ Director, First Metro Investment Corporation. President/ Director, Horizon Royale Holdings, Inc. and Philippine Securities Corporation. Director, Federal Land, Inc. BS Economics, University of California-Los Angeles. MBA, Columbia University.

VICENTE R. CUNA, JR., Director/President

Director/ President since 2013. Director, FMIC. Senior Executive Vice-President, Metrobank - Institutional Banking Sector. A.B Economics, De La Salle University. MBA (Coursework completed, pending thesis requirement), Ateneo de Manila Graduate School of Business.

SAMSON C. LIM, Independent Director

Director since 2008. President, Blims Fine Furniture, and Canadian Tourism & Hospitality Institute. Chairman, Automatic Appliances Inc., Collins International Trading Corporation, and Francorp Philippines. Chairman/ Tourism Committee, Philippine Chamber of Commerce and Industry. Chairman Emeritus/ International Relation, Philippine Franchise Association. Chairman Emeritus, Philippine Retailers Association. BS Liberal Arts, Cum Laude, Ateneo de Manila University. Masters in Business Economics, University of Asia and the Pacific. Exchange Student, Sophia University Tokyo , Japan . Special Training on International Business, Institute of International Studies and Training, Fujinomia , Japan . Top Management Program, Asian Institute of Management.

BENEDICTO JOSE R. ARCINAS, Independent Director

Director since 2012. Director, Arcinas Freres, Inc. BS Business Economics, University of the Philippines, Diliman. Master of Science in Management (Graduation with Distinction), Arthur D. Little Management Education Institute (now Hult International Business School). Certificate Courses in Small Enterprise Mgt., Operations Research, Economics, Computer Programming, Harvard University, Cambridge, Massachusetts.

MA. THERESA G. BARRETTO, Director

Director since 2006. Director, Endel Enterprises Corp., and Rural Bank of Candelaria, Inc. BS Commerce, Assumption College . Curso de Estudios Hispanicos, La Universidad de Madrid in Spain.

JOAQUIN ALIGGUY, Director

Director since 2009. Corporate Secretary, Manila Doctors Hospital. President, KNBO Management Consultants Inc. Director, Writers Union of the Phils., and Philippine Association of Chinese Studies. Adviser, Metrobank Foundation. Trustee, Angelo King Foundation. Consultant, Asiaticus Management Corp. AB Philippine Literature, University of the Philippines .

MARGARET TY CHAM, Director

Director since 2004. Director, Orix Metro Leasing Corp., and Federal Land Inc. Director/ President, Glam Holdings Corp. Chairman/ President, Glamore Holdings Corp. Vice President, Great Mark Resources Corp., Global Treasure Holdings Inc., and Grand Titan Capital Holdings Inc. Corporate Sercretary, Metrobank Foundation. Vice President/Corporate Secretary, Norberto and Tytana Ty Foundation. Trustee/Vice President/Corporate Secretary, GT Metro Foundation. Assistant Corporate Secretary, GT Capital Holdings, Inc. BS Humanities, De La Salle University.

JEANNE FRANCES T. CHUA, Director

Director since 2013. Vice President, Legaspi Import & Export Corp. B.S. Finance, Santa Clara University, USA

Executive Officers

The names, positions and educational attainment of the Bank's executive officers follow. The Executive Officers are appointed by the Board at the organizational meeting following the stockholders' meeting, each to hold office for a period of one year.

Name	Position
Vicente R. Cuna, Jr.	President
Jose Vicente L. Alde	Executive Vice President
Perfecto Ramon Z. Dimayuga, Jr.	Senior Vice President
Noli S. Gomez	Senior Vice President
Jose Jesus B. Custodio	Senior Vice President
Ma. Patricia L. Castaneda	First Vice President
Norberto M. Coronel III	First Vice President
Neil C. Estrellado	First Vice President
Francis C. Llanera	First Vice President
Jose Martin A. Velasquez	First Vice President
Leah M. Zamora	First Vice President
Andre Manuel L. Abellanosa	Vice President
Patrick P. Arce	Vice President
Donabel S. Arcilla	Vice President
Raye Claudine Q. Baron	Vice President
Minda L. Cayabyab	Vice President
Emma B. Co	Vice President
Dan Jose D. Duplito	Vice President
Antonell S. Interino	Vice President
Antonio Jude Martin P. Montinola	Vice President
Edeza A. Que	Vice President
Melissa F. Tong	Vice President
Mary Jane M. Valero	Vice President
Pablito C. Veloria	Vice President
Ma. Rita Rosette R. Villamin	Vice President

JOSE VICENTE L. ALDE, Executive Vice President

Joined the Bank in October 2007. Member, Assets and Liabilities, Credit, IT Steering and Personnel Committees. Former Vice President, Treasury at ABN AMRO Bank. Held various positions in treasury and branch banking in BA Savings Bank. Had stints in sales management at Johnson & Johnson and IT with World Health Organization. Bachelor in Computer Science with honors, University of the Philippines. Masters in Business Management, Asian Institute of Management.

PERFECTO RAMON Z. DIMAYUGA, JR., Senior Vice President

Joined the Bank in January 2006. Head, Finance Group. Member, Assets and Liabilities, IT Steering, Personnel, Outsourcing Oversight and Retirement Committees. Held various treasury positions in Development Bank of Singapore (DBS) Phils., Inc. , Bank of the Philippine Islands, Mindanao Development Bank, Citytrust Banking Corp. and Rizal Commercial Banking Corp. AB in Economics, Ateneo de Manila University. Masters in Business Management, University of the Philippines.

NOLI S. GOMEZ, Senior Vice President

Joined the Bank in October 2001. Head, Operations Group. Member, Assets and Liabilities, Policy, Personnel, Outsourcing Oversight, Emergency and Retirement Committees. Former Chief Risk Officer and Head of Systems and Methods, DBS Bank Phils. and Systems Management Officer, Bank of the Philippine Islands. BS Civil Engineering, Mapua Institute of Technology. Licensed Civil Engineer with distinction.

JOSE JESUS B. CUSTODIO, Senior Vice President

Joined the Bank in December 2001. Head, Indirect Sales Channel. Member, Assets and Liabilities Committee. Former Head of Auto Loans-Retail Sales, Citytrust Banking Corp. Former Fleet and Floorstock Department Head, BPI Family Savings Bank. BS Business Management, Ateneo de Manila University

MA. PATRICIA L. CASTANEDA, First Vice President

Joined the Bank in August 2005. Head, Risk Management Office. Member, Assets and Liabilities Committee. Member, Anti-Money Laundering Committee. Former Market Risk Officer, BDO Private Bank. Former Corporate Finance Manager, TA Bank. Former Risk Management Officer, Bank of the Philippine Islands. BS Business Economics with honors, University of the Philippines.

NORBERTO M. CORONEL III, First Vice President

Joined the Bank in December 2007. Head, Large Enterprise Group. Member, Assets and Liabilities and Credit Committees. Former FVP and Head of Equity Underwriting and Placements, Investment & Capital Corp. of the Philippines. Former AVP of Investment Banking Division, United Coconut Planters Bank. BS Business Management, Ateneo de Manila University. MBA, University of the Philippines.

NEIL C. ESTRELLADO, First Vice President

Joined the Bank in March 2002. Head, Information Technology Division. Member, Outsourcing Oversight, IT Steering and Emergency Committees. Former Project Leader, Oversea-Chinese Banking Corp. Ltd. Former Lead IT Analyst, Development Bank of Singapore. Former Project Manager, DBS Philippines. Former Systems Analyst, Bank of the Philippine Islands. BS Mathematics, Ateneo de Manila University.

FRANCIS C. LLANERA, First Vice President

Joined the Bank in December 2007. Head, Branch Banking Group. Member, Assets and Liabilities Committee. Former Credit Card Collections Head, Union Bank of the Philippines. Formerly with American International Group's Credit Risk Management. BS Commerce, University of Santo Tomas.

JOSE MARTIN A. VELASQUEZ, First Vice President

Joined the Bank in September 2004. Head, Treasury Group. Member, Assets and Liabilities, and Retirement Committee. Former Deputy Treasurer, First Metro Investment Corp. Former Senior Dealer, BPI Capital Corp. BA Economics and BS Commerce major in Management of Financial Institutions and MBA, De La Salle University. Registered Fixed Income Salesman, Securities and Exchange Commission. Treasury Certified Professional, Ateneo-Bankers Association of the Philippines.

LEAH M. ZAMORA, First Vice President

Joined the Bank in April 2010. Head, Business Information Management Services Division. Member, Assets and Liabilities and IT Steering Committees. Former Vice President for Financial Planning and Analysis, GE Money Bank Philippines. BS Accounting, De La Salle University. Certified Public Accountant.

ANDRE MANUEL L. ABELLANOSA , Vice President

Joined the Bank in February. 2003. Head, Treasury Marketing and Currencies Division. Member, Assets and Liabilities Committee. Former Senior Trader, BPI Capital Corporation. Former Chief Forex Dealer, DBS Forex Corp. BS Management, Colegio de San Juan de Letran. Registered Fixed Income Salesman, Securities and Exchange Commission. Treasury Certified Professional, Ateneo-Bankers Association of the Philippines.

PATRICK P. ARCE, Vice President

Joined the Bank in June 2012. Head, Direct Sales Channel. Member, Assets and Liabilities Committee. Former AVP and Sales Director of Direct Sales Personal Loans (Public Loans) Division, Chinatrust Bank (Philippines). Former Channel Head and Senior Manager for Credit Cards and Personal Loans, Standard Chartered Bank. BS Commerce major in Business Management in

Entrepreneurship, De La Salle University.

DONABEL S. ARCILLA , Vice President

Joined the Bank in June 2007. Head, Marketing and Communications Group. Member, Assets and Liabilities Committee. Former Assistant Vice President in Marketing for CATS Motors, Inc. Former Senior Manager for Marketing for General Motors Philippines, Inc. Former Senior Manager for Advertising & Promotions, SM Supermalls. Advertising, Miriam College.

RAYE CLAUDINE Q. BARON, Vice President

Joined the Bank in August 2009. Head, Process Management Division. Member, Policy, Outsourcing Oversight and Emergency Committees. Former Senior Assistant Vice President for Project Management and Operations Control Department, AIG PhilAm Savings Bank Inc. BS Business Management, Ateneo de Manila University. MBA, University of the Philippines.

MINDA L. CAYABYAB, Vice President

Joined the Bank in May 1998. Head, Financial Accounting and Services Division. Former Senior Auditor, Isla Lipana & Co., Philippine member firm of PricewaterhouseCoopers. BS Business Administration, major in Accounting with honors, Pamantasan ng Lungsod ng Maynila. Certified Public Accountant.

EMMA B. CO, Vice President

Joined the Bank in December 2001. Chief Audit Executive and Head, Internal Audit Group. Member, Anti-Money Laundering and Related Party Transactions Committees. Former Senior Manager For Audit, Mercator Group. Former IT Audit Officer, Union Bank of the Philippines. BS Commerce, major in Accounting, University of Santo Tomas. Bachelor of Laws, Lyceum of the Philippines. MS in Information Management, Ateneo de Manila University. Certified Public Accountant and lawyer.

DAN JOSE D. DUPLITO, Vice President

Joined the Bank in March 2005. Head, Information Security Division. Former Information Security Consultant, TIM Corporation and I-Sentry Security Services. BS Mechanical Engineering, University of the Philippines.

ANTONELL S. INTERINO, Vice President

Joined the Bank in August 2010. Head of Forecasting and Analytics Department under the Business Information Management Services Division. Former Compliance Officer, BDO Leasing and Finance, Former Senior Analyst, Financial Planning and Analysis Division, GE Money Bank, BS Accountancy, De La Salle University. Certified Public Accountant

MARY MYLEEN M. MASANQUE, Vice President

Joined the Bank in November 2011. Head, Collections and Remedial Management Division. Former AVP and Head of Recovery Unit, BDO Unibank. Former Manager, AIG Credit Cards. AB Communication Arts, Miriam College.

ANTONIO JUDE MARTIN P. MONTINOLA, Vice President

Joined the Bank in March 2009. Head, Electronic Channels Group. Member, Assets and Liabilities and Emergency Committees. Former Group Account Director, Harrison Communications Inc. – McCann-Erickson Philippines. Former Business Unit Director, Arc Worldwide – CRM/Digital Agency of Leo Burnett. BS in Interdisciplinary Studies, Ateneo de Manila University.

GILBERT L. NUNAG, Vice President

Joined the Bank in February 2008. Chief Compliance Officer. Member, Anti-Money Laundering and Outsourcing Oversight Committees. Former AVP and Compliance Officer, UCPB Savings Bank. Former AVP & Compliance and Risk Management Division Head & Senior Manager and Controllership Head, UCPB Rural Bank. Former Audit Team In-Charge, SyCip Gorres Velayo & Co. BS Accountancy with honors, Ateneo de Cagayan (Xavier University). Certified Public Accountant.

EDEZA A. QUE, Vice President

Joined the Bank in October 2005. Credit Risk Manager, Risk Management Office. Former Credit Risk Manager for Consumer Banking, Standard Chartered Bank. Former Risk Management Officer, American International Group Credit Card Co. Member, Bankers Institute of the Philippines, Inc. BS in Statistics with honors and MS in Statistics, University of the Philippines.

MELISSA F. TONG, Vice President

Joined the Bank in December 2010. Head, Product and Business Development Division. Member, Assets and Liabilities Committee. Former Unit Head for Cash Management Services and Head of Retail Sales and Marketing, BDO Unibank. Former Regional Head for Europe, iRemit. BA in Organizational Communication and BS in Commerce major in Marketing Management, De La Salle University.

MARY JANE M. VALERO, Vice President

Joined the Bank in August 2002. Head, Customer Service Division. Former Front Office Manager, Mandarin Oriental Hotel Manila. Former Duty Manager, Westin Philippine Plaza. BS Psychology and BA Guidance and Counseling, St. Scholastica's College. MA in Industrial Psychology graduated Cum Laude, University of Sto. Tomas. Currently finishing Ph.D. on Clinical Psychology, University of Sto. Tomas.

MARIS LOU S. VELICARIA, Vice President

Joined the Bank in December 2001. Head, Credit Administration Group. Director, Credit Management Association of the Philippines (CMAP). Former Credit Offcer, Development Bank of Singapore, Bank of Southeast Asia, BPI Family Bank and Citytrust Banking Corporation. BA Philippine Studies, University of the Philippines.

PABLITO C. VELORIA, Vice President

Joined the Bank in September 2006. Head, General Services Division. Former Head of Consumer Credit Evaluation, Field Support, Credit Investigation, Housing Loan Evaluation, Share Finance Credit and Mortgage Credit Investigation, BPI Family Savings Bank. BS Civil Engineering, Adamson University.

MA. RITA ROSETTE R. VILLAMIN, Vice President

Joined the Bank in February 2003. Head, Human Resources Group. Member, Personnel and Retirement Committees. Former Senior Manager for Human Resources, SM Supermalls. Training Manager, Litton Mills. BS Hotel and Restaurant Management, University of Sto. Tomas.

Number of Employees

PSBank's existing manpower complement is as follows:

	As of 31 December 2013	As of 31 December 2012
Senior Officers	50	53
Junior Officers	890	893
Staff	1,801	1,732
Total	**2,741**	**2,678**

The Bank continues to produce new officers for branch and head office positions through the Staff Professional Enhancement and Development (SPEED) program. In end-2012, the Bank and the PSBank Employees Union ("Union") successfully concluded Collective Bargaining Agreement (CBA) negotiations yielding improvements in almost all incentives, allowances and subsidies for the Rank and File employees. This CBA shall be for a period of three years from January 1, 2013 to December 31, 2015, with annual salary increases of ₱1,700.00, ₱1,400.00 and ₱1,400.00, in 2013, 2014 and 2015, respectively. The absence of a major dispute over the years is a testament to the harmonious relationship between the Bank and the Union. It also helps that the Labor- Management Council, where issues are immediately discussed in a dialogue and settled even before they turn to grievances, is in place.

Shareholders

The Bank's Top 10 shareholders as of 31 December 2013 are as follows:

	Name of Stockholders	No. of Shares	% of Total
1.	Metropolitan Bank and Trust Co.	182,535,895*	75.98%
2.	PCD Nominee Corporation (Filipino)	18,138,502**	7.55%
3.	Dolor, Danilo L.	12,610,891	5.25%
4.	Dolor, Erlinda L.	7,605,832	3.17%
5.	De Leon, Maria Soledad S.	4,000,000	1.66%
6.	De Leon, Gian Carlo S.	2,741,378	1.14%
7.	De Leon, Leonard Frederick S.	2,598,334	1.08%
8.	De Leon, Alvin Benjamin S.	2,437,887	1.01%
9.	De Leon, Kevin Anthony S.	2,407,964	1.00%
10.	PCD Nominee Corporation (Non-Filipino)	1,641,626	0.68%

* includes shares lodged with PCD Nominee Corporation (Filipino)
** net of Metropolitan Bank and Trust Co. lodged shares equivalent to 29,109,918 shares

Total number of stockholders as of 31 December 2013 is 1,581.

The Bank's principal shareholders are comprised of four major groups with Metrobank, owning 75.98%, PCD Nominee Corporation (Filipino) owning 7.55%, the Dolor Family collectively owning 8.42%, and De Leon Family owning 5.89%. Other minority shareholders hold the balance of 2.16%.

PHILIPPINE BANKING SECTOR

The following is a general discussion of the Philippine Banking Industry. It is based on the laws, regulations and administrative rulings in force as at the date of this Offering Circular and is subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. It does not purport to be a comprehensive description of all of the aspects of the industry that may be relevant to a decision to purchase, own or dispose of the Notes. Prospective purchasers should consult their advisors as to the consequences of acquiring, holding and disposing of the Notes.

Overview

The Philippine banking industry is a ₱8.61 trillion industry composed of 36 Universal and Commercial Banks ("UB/KBs"), 70 thrift banks and 577 rural and cooperative banks (as of 30 June 2013). Out of the total banking industry assets, 89.5% are from UBs and KBs. Thrift banks account for 8.3%, while rural and cooperative banks account for the remaining 2.2%. Total assets of the banking system rose by 16.2% as of 30 June 2013 driven by a growth in loans and deposits.

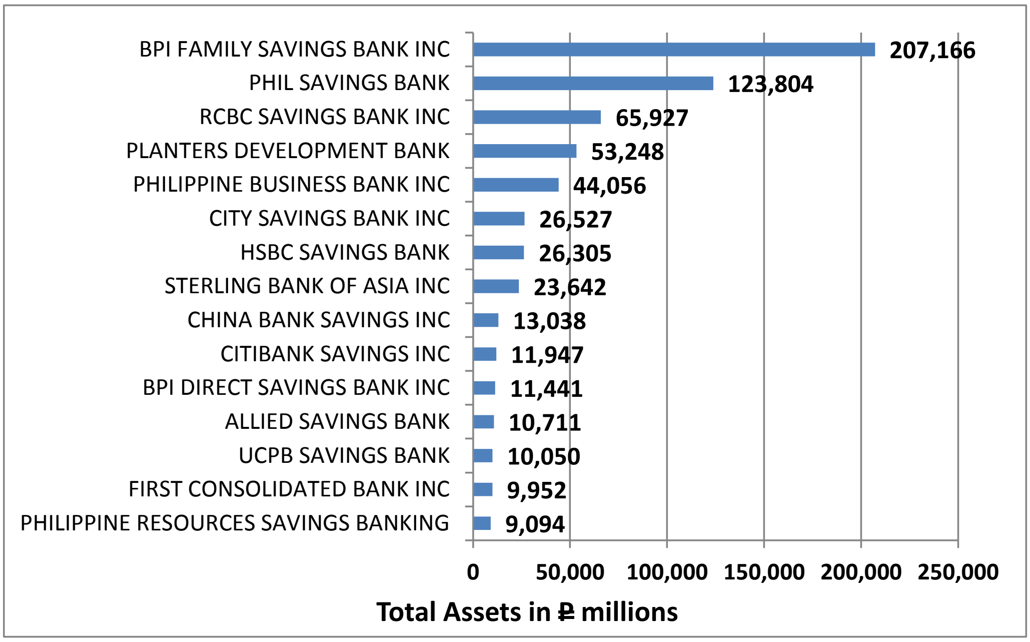
Philippine Thrift Banks

The Philippine thrift banking industry is dominated by BPI Family Savings Bank ("BPI Family"), Philippine Savings Bank ("PSBank"), and RCBC Savings Bank ("RCBC Savings"), which are subsidiaries of universal banks. As of 30 September 2013, these were the top three thrift banks in terms of total assets, loans, deposit liabilities and equity. The top three thrift banks accounted for about half (53.3%) of the thrift banking sector's total assets while the top 15 accounted for 82.7%; the remaining 17.3% is accounted for by 58 other thrift banks. The table below shows the top five thrift banks in the Philippines as of 30 September 2013.

(₱ millions)	Total Assets	Total Equity	Total Loans	Total Deposits
BPI Family Savings Bank	207,166	17,392	133,976	185,420
Philippine Savings Bank	123,804	16,615	97,151	100,244
RCBC Savings Bank	65,927	7,386	40,413	55,306
Planters Development Bank	53,248	3,133	32,333	44,594
Philippine Business Bank	44,056	7,262	26,669	33,835

Source: BSP reports and publications

The chart below shows the top 15 Thrift Banks in the Philippines by Total Assets as of 30 September 2013.



BANKING REGULATIONS AND SUPERVISION

The following is a general discussion of the Philippine Banking Regulation and Supervision. It is based on the laws, regulations, and administrative rulings in force as at the date of this Offering Circular and is subject to any changes in law occurring after such date, which changes can be made on a retroactive basis. It does not purport to be a comprehensive description of all of the laws, regulations, and administrative rulings of the Philippine banking industry.

General

The New Central Bank Act of 1993 (Republic Act No. 7653) and the General Banking Law of 2000 (the "General Banking Law") (Republic Act No. 8791) vest the Monetary Board of the BSP with the power to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, savings banks, mortgage banks, development banks, rural banks, stock savings and loan associations as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board.

The BSP's Manual of Regulations for Banks (the ''Manual'') is the principal source of rules and regulations to be complied with and observed by banks in the Philippines. The Manual contains regulations applicable to universal banks, commercial banks, savings banks, rural banks and non-bank financial intermediaries performing quasi-banking functions. These regulations include those relating to the organization, management and administration, deposit and borrowing operations, loans, investments and special financing programs, and trust and other fiduciary functions, of the relevant financial intermediaries. Supplementing the Manual are rules and regulations promulgated in various circulars, memoranda, letters and other directives issued by the Monetary Board.

The Manual and other BSP rules and regulations are principally implemented by the Supervision and Examination Sector (the ''SES'') of the BSP. The SES is responsible for ensuring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines including government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions.

Permitted Activities

A thrift bank, such as the Bank, in addition to powers provided in other laws, has the authority to perform any or all of the following services: (i) grant loans, whether secured or unsecured, (ii) invest in readily marketable bonds and other debt securities, commercial papers and accounts receivable, drafts, bills of exchange, acceptances or notes arising out of commercial transactions, (iii) issue domestic letters of credit, (iv) extend credit facilities to private and government employees, (v) extend credit against the security of jewelry, precious stones and articles of similar nature, (vi) accept savings and time deposits, (vii) rediscount paper with the Land Bank of the Philippines, Development Bank of the Philippines and other government-owned or –controlled corporations, (viii) accept foreign currency deposits as provided under R.A. No. 6426, as amended, (ix) act as correspondent for other financial institutions, and (x) purchase, hold and convey real estate as specified under Sections 51 and 52 of R.A. No. 8791. Thrift Banks are also allowed to a certain extent to invest in allied (both financial and non-financial) undertakings.

Financial allied undertakings include leasing companies, banks, investment houses, financial companies, credit card companies, and financial institutions catering to small- and medium-scale industries, including venture capital companies, companies engaged in stock brokerage securities dealership and brokerage and companies engaged in foreign exchange dealership/brokerage. Non-financial allied undertakings include, warehousing companies, storage companies, safe deposit box companies, companies engaged in the management of mutual funds, insurance agencies, among others.

The total equity investments of a thrift bank in financial allied enterprises are not permitted to exceed 49.0% of the enterprise's net worth. Its equity investment in non-financial undertakings shall remain less than 50.0% of the voting shares in that enterprise, which is subject to the prior approval of the Monetary Board if the investment is in excess of 40.0%.

In addition to those functions specifically authorized by the General Banking Law and the Manual, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects, (ii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities, (iii) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business, (iv) act as managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts, upon prior approval of the Monetary Board and (vi) rent out safety deposit boxes.

Regulations

The Manual and various BSP regulations impose the following restrictions on thrift banks:

Minimum Capitalization

Under the Manual, thrift banks with a head office in Metro Manila are required to have capital accounts of at least ₱1.00 billion. These minimum levels of capitalization may be changed by the Monetary Board from time to time.

For the purposes of these requirements, the Manual provides that capital shall be unimpaired capital and surplus, combined capital accounts, and net worth and shall refer to the combined total of the unimpaired paid-in capital, surplus, and undivided profits, net of: (a) such unbooked valuation reserves and other capital adjustments as may be required by the BSP, (b) total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, (c) unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates; (d) deferred income tax, (e) appraisal increment reserve (revaluation reserve) as a result of appreciation or increase in the book value of bank assets, (f) equity investment of a bank in another bank or enterprise (foreign or domestic) if the other bank or enterprise has a reciprocal equity investment in the investing bank, although if such bank or enterprise has reciprocal equity investment in the investing bank, the lower figure of the investment of the bank or the reciprocal investment of the other bank or enterprise should be used; and (g) in the case of rural banks, the government counterpart equity, except those arising from conversion of arrears under BSP's Rehabilitation Program.

Capital Adequacy Requirements

Basel II (the Revised International Convergence of Capital Measurement and Capital Standards) was issued on 26 June 2004 by the Basel Committee on Banking Supervision, an international committee of banking supervisory authorities, to replace Basel I, which was issued in 1988 and amended in 1996. On 2 June 2006, the Monetary Board of the BSP approved the guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II, for implementation on 1 July 2007. On 16 December 2010 and on 13 January 2011, the Basel Committee issued its most recent guidelines on Basel III, a series of amendments to the Basel II framework.

The Basel Committee's package of reforms includes increasing the minimum common equity (or equivalent) requirement from 2% (before the application of regulatory adjustments) to 4.5% (after the application of stricter regulatory adjustments). The total Tier I capital requirement will increase from 4% to 6%. In addition, banks will be required to maintain, in the form of common equity (or its equivalent), a capital conservation buffer of 2.5% to withstand future periods of stress, bringing the total common equity (or equivalent) requirement to 7%, the total Tier 1 requirement to 8.5%, and the total capital requirement (which remains unchanged at 8%, before the additional buffer) to 10.5%.

If there is excess credit growth in any given country resulting in a system-wide build up of risk, a countercyclical buffer within a range of 0% to 2.5% of common equity (or other fully loss absorbing capital) is to be applied as an extension of the capital conservation buffer. The BSP is set to specify further capital requirements for Systemically Important Financial Institutions ("SIFI's") in due time.

These requirements may lead to the Bank having to hold even higher minimum levels of capital compared with the levels above, should it be designated as a SIFI.

The Basel III regulations also include more stringent definitions of Tier 1 capital and Tier 2 capital instruments relating to their ability to absorb losses, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios.

The impact of these reforms, if implemented fully per the Basel Committee's guidance, will be to increase the minimum quantity and quality of capital which the Bank will be obliged to maintain. The reforms were implemented beginning in 1 January 2014.

To align with the international standards, the BSP has adopted the BCBS' eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 capital and Tier 2 with the issuance of BSP Circular No. 709 issued on 10 January 2011.

On 15 January 2013, the BSP published Circular No. 781, which prescribed the implementing guidelines on the risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for the Philippine banking system in accordance with the Basel III standards. The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, will be required to be not less than 10% on an unconsolidated basis and consolidated basis. Banks will also be required to maintain a CET1 ratio and a Tier 1 capital ratio of 6.0% and 7.5%, respectively. A capital conversion buffer of 2.5%, comprised of CET1 capital, shall also apply.

As a result of these directives, the Bank is exposed to the risk that the BSP may increase applicable risk weights for different asset classes from time to time. Any incremental capital requirement may adversely impact the Bank's ability to grow its business and may even require the Bank to withdraw from or curtail some of its current business operations. There can also be no assurance that the Bank will be able to raise adequate additional capital in the future on terms favorable to it.

Reserve Requirements

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency.

Under BSP Circular 732 (2011), as amended by BSP Circular 753 (2012), thrift banks (including the Bank) are required to maintain regular reserves of 6.0% against demand deposits, "NOW" accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, and deposit substitutes, 3.0% against long-term negotiable certificate of time deposits, 2.0% against deposit substitutes evidenced by repo agreements, and 4.0% against bonds, and mortgage/CHM certificates.

Loan Limit to a Single Borrower

Under the General Banking Law and its implementing regulations, the total amount of loans, credit accommodations, and guarantees that may be extended by a bank to any borrower shall at no time exceed 25.0% of the net worth of such bank (or 30.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board from time to time. A circular issued by the BSP in May 2009 amended the ceiling on loans to subsidiaries and affiliates. This allowed a bank's subsidiaries and affiliates, engaged in energy and power generation, to a separate individual limit of 25.0% of bank's net worth while the unsecured amount to not exceed 12.5% of the said net worth.

On 9 February 2011, the BSP issued out an amendment to the Regulations on Single Borrower's Limit. The amendment allowed for increases (on top of the 25.0% as already mentioned) on the amount of loans, credit accommodations, and guarantees that a bank may issue out to a borrower. The following are the increases given certain conditions: (a) an additional 10.0% of the net worth of the bank as long as the additional liabilities are secured by shipping documents, trust or warehouse receipts or other similar documents which cover marketable, non-perishable goods which must be full covered by insurance, (b) an additional 25.0% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance the infrastructure and/or development projects under the Philippine government's PPP Program; that these additional liabilities should not exceed 25.0% and will be allowed for a period three years from 6 December 2010, (c) an additional 15.0% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank which is also engaged in energy and power generation.

Lending Policies, Secured and Unsecured Lending

Banks are generally required to ascertain the purpose of a proposed loan, and the proceeds of the loan are to be used for that purpose only. Thrift banks are generally prohibited from lending on a secured basis in an amount exceeding 70.0% of the appraised value of land and insured improvements, except for residential loans not exceeding ₱3.50 million and housing loans extended or guaranteed under the government's National Shelter Program, which shall be allowed a maximum value of 70.0% of the appraised value, and, subject to certain conditions, loans for home-building and subdivision development for low- and middle-income families and other housing loans, which may be granted up to an 80.0% ceiling. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial condition and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any unsecured lending should be only for a time period essential for completion of the operations to be financed.

Priority Lending Requirements

The Agri-Agra Reform Credit Act of 2009 or Republic Act No. 10000 mandates that all banks shall set aside 25.0% of their total loanable funds for agriculture and agrarian reform credit in general, of which at least 10.0% shall be made available for agrarian reform beneficiaries. In the alternative, banks can buy government and debt securities whose proceeds shall be used for lending to the agriculture and agrarian reform sectors, subscription to shares of stock of accredited rural financial institutions (preferred shares only), Quedan and Rural Credit Guarantee Corporation, and the Philippine Crop Insurance Corporation; open special deposit accounts with accredited rural financial institutions, provide rediscounting on eligible agriculture, fisheries and agrarian credits, and provide lending for construction and upgrading of infrastructure including farm-to-market roads. The BSP shall impose administrative sanctions and penalties of 0.5% of the total amount of its non-compliance and under-compliance.

BSP regulations also provide that, for a period of ten years from 17 June 2008 to 16 June 2018, banks are required to set aside at least 8.0% for micro and small-sized and 2.0% for medium-sized enterprises, of their total loan portfolio based on their balance sheet as of the end of the previous quarter for lending to such enterprises. Investments in government securities other than the instruments offered by the government-controlled Small Business Corporation will not satisfy such obligation.

Banks may be allowed to report compliance on a group-wide basis (i.e. on a parent-subsidiary consolidated basis), so that excess compliance of any bank in the group can be used as compliance for any deficient bank in the group, provided that the subsidiary bank(s) is at least majority-owned by the parent bank, and provided further that the parent bank shall be held responsible for the compliance of the group.

Qualifications of Directors and Officers

Under the Manual, bank directors and officers must meet certain minimum qualifications. For instance, directors must be at least 25 years old, have a college degree or have at least five years' business experience, while officers must be at least 21 years old, have a college degree, or have at least five years' banking or trust experience.

Certain persons are disqualified from acting as bank directors, including (a) persons who have been convicted of an offence involving moral turpitude or have been declared insolvent or incapacitated, (b) persons who have been removed by the Monetary Board, (c) persons who refuse to disclose business interests, (d) resident directors who have been absent for more than half of directors' meetings, (e) persons who are delinquent in their obligations, (f) persons who have been found to have willfully refused to comply with applicable banking laws or regulations, and (g) persons who have been dismissed for cause from any institution under the supervision of the BSP. In addition, except as permitted by the Monetary Board, directors or officers of banks are also generally prohibited from simultaneously serving as directors or officers of other banks or non-bank financial intermediaries.

Under the Manual, independent directors shall have the additional qualifications that he: (a) is not or has not been an officer or employee of the bank, its subsidiaries or affiliates within three years from his election; (b) is not a director or officer of the related companies of the bank's majority stockholder; (c) is not a majority stockholder of the bank; (d) is not a relative within the fourth degree of consanguinity or affinity, legitimate or common-law of any director, officer or majority shareholder of the bank or any of its related companies; (e) is not acting as a nominee or representative of any director or substantial shareholder or any of its related companies; and (f) is not retained as a professional adviser, consultant or counsel of the bank and is independent of the management and free from any business or other relationship.

Loans to DOSRI

The amount of individual loans to DOSRI, of which 70.0% must be secured, should not exceed the unencumbered amount of the relevant DOSRI's outstanding deposits and book value of the DOSRI's paid-in capital investment in the bank. In the aggregate, outstanding loans, other credit accommodations and guarantees to DOSRI generally should not exceed 100.0% of the bank's net worth or 15.0% of the total loan portfolio of the bank, whichever is lower. In no case shall the total unsecured loans, other credit accommodations and guarantees to DOSRI exceed 30.0% of their outstanding loans, other credit accommodations and guarantees. For the purpose of determining compliance with the aggregate ceiling on unsecured credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit guarantees and guarantees every quarter.

The credit card operations of banks shall not be subject to these regulations where the credit cardholders are the bank's directors, officers, stockholders and their related interests, subject to certain conditions.

Valuation Reserves for Probable Losses against Loans

In general, banking regulations define past due accounts of a bank as referring to all accounts in a bank's loan portfolio, all receivable components of trading account securities, and other receivables that are not paid at maturity. In the case of loans or receivables payable in installments, banking regulations consider the total outstanding obligation past due in accordance with the following schedule:

Mode of Payment	Minimum Number of Installments in Arrears
Monthly	3
Quarterly	1
Semi-Annually	1
Annually	1

However, when the total amount of arrears reaches 20.0% of the total outstanding balance of the loan or receivable, the total outstanding balance of the loan or receivable is considered past due notwithstanding the number of installments in arrears.

BSP regulations allow loans and advances to be written off as bad debts only if they have been past due for six months or more, and can be justified to be uncollectible. The board of directors of a bank has the discretion as to the frequency of write-off provided that the loan is deemed worthless and the write-offs are made against allowance for probable losses or against current operations. The prior approval of the Monetary Board of the BSP is required to write off loans to DOSRI.

On 26 January 2003, the Special Purpose Vehicles Act (SPV Act) came into force. The SPV Act provides the legal framework for the creation of private management companies that will acquire NPLs, real estate and other assets from financial institutions in order to encourage new lending to support economic growth. The Congress of the Philippines passed the SPV Act's implementing rules and regulations on 19 March 2003 and they came into force on 12 April 2003. Under the SPV Act, the original deadline for the creation of asset management companies entitled to tax breaks was 19 September 2004. On 24 April 2006, the Philippine president signed into law an amendment to the SPV

Act extending the deadline for the creation of asset management companies entitled to tax breaks to 18 months after 14 May 2006, the date the amended SPV Act took effect.

Guidelines on General Reserves

Under existing BSP regulations, a general provision for loan losses shall also be set up as follows: (i) 5.0% of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk under existing laws and regulations; and (ii) 1.0% of the outstanding balance of unclassified loans other than restructured loans less loans which are considered non-risk under existing laws and regulations.

Restrictions on Branch Opening

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision allows banks, with prior Monetary Board approval, to use any or all of its branches as outlets for the presentation and/or sale of financial products of its allied undertakings or investment house units. BSP Circular No. 505 (2005), as amended by BSP Circular 696 (2010), prescribes the minimum capitalization for banks in order to be given authority to establish branches, as follows:

Bank Category	Minimum Capital (in ₱ Millions)
Expanded Commercial Bank	4,950
Non-expanded Commercial Banks	2,400
Thrift Bank:	
With Head Office within Metro Manila	1,000
With Head office in Cebu or Davao	500
With Head Office outside Metro Manila, Cebu or Davao	250
Rural Banks:	
Within Metro Manila	100
Cities of Cebu and Davao	50
All other cities	25
1st to 4th class municipalities	10
5th to 6th class municipalities	5
Coop Banks	10

Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Once approved, a branch may be opened within six months from the date of approval (extendable for another six-month period, upon the presentation of justification therefor). Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks are allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Parañaque, Pasay, Pasig, Quezon and the municipality of San Juan, Metro Manila. However, under BSP Circular No. 728 (2011), the restrictions on establishment of branches shall be fully lifted as of 1 July 2013, subject to certain requirements

Under the first phase, second-tier universal and commercial banks with capital accounts of at least P10 billion and thrift banks with capital of at least P3 billion that have less than 200 branches in restricted areas as of December 2010 would be allowed to apply and establish branches in these restricted areas until 30 June 2014. The second phase of the current liberalization approach would start on 1 July 2014 wherein branching in the restricted areas will be opened up to all banks except rural and cooperative banks that are not allowed to establish branches in Metro Manila.

Branches of microfinance-orientated banks, microfinance-orientated branches of regular banks and branches that will cater primarily to the credit needs of BMBEs duly registered under the Barangay Micro Business Enterprises Act of 2002 (R.A. No. 9178) may be established anywhere upon the fulfilment of certain conditions.

Foreign Ownership in Domestic Banks

There are separate provisions in the Manual regarding foreign ownership in domestic banks depending on whether the acquirer is a foreign bank, individual or non-bank corporation. For foreign banks, they can purchase or own up to sixty percent (60.0%) of the voting stock of an existing domestic bank (which include banks under receivership or liquidation, provided no final court liquidation order has been issued). These foreign banks will be subject to the following criteria to be reviewed by the Monetary Board: geographic representation and complementation, strategic trade and investment relationships between the Philippines and the foreign bank's country of incorporation, relationship between the foreign bank and the Philippines, demonstrated capacity and global reputation for financial innovations, reciprocity rights enjoyed by Philippine banks in the foreign bank's country and willingness to fully share technology.

For foreign individuals and non-bank corporations, they can purchase or own up to an aggregate of forty percent (40.0%) of the voting stock of a domestic bank. The prior review of the Monetary Board is not required for them.

Anti-Money Laundering Law

The Anti-Money Laundering Act was passed on 29 September 2001 and was amended on 23 March 2003. Under its provisions, as amended, certain financial intermediaries including banks, offshore banking units, quasi-banks, trust entities, non-stock savings and loan associations, and all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP, and insurance companies and/or institutions regulated by the Insurance Commission, are required to submit a "covered" transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day.

These institutions are also required to submit a "suspicious" transaction report if there is reasonable ground to believe that any amounts processed are the proceeds of money laundering activities.

BSP Circular No. 495 (2005) requires all universal and commercial banks in the Philippines to have an electronic money laundering transaction monitoring system in place by October 2007. Each system should have the ability to detect and bring to the relevant institution's attention all transactions and/or accounts that either qualify as "covered transactions" or "suspicious transactions".

These transactions are reported to the Anti-Money Laundering Council ("AMLC") created under the law within five banking days of discovery of that transaction by the covered institution. The Court of Appeals, upon application by the AMLC, has the authority to issue freeze orders on any accounts which is suspected as being used for money laundering to be frozen.

BSP Circular No. 495 (2005) as amended by BSP Circular 527 (2006) requires all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at the minimum, be able to detect and raise to the bank's attention, transactions and/or accounts that qualify either as "covered transactions" or "suspicious transactions" as defined under the Anti-Money Laundering Act.

BSP Memorandum No. M2012-017 (April 2012) likewise requires all covered banking institutions to comply with the Anti-Money Laundering Risk Rating System (ARRS), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient Board of Directors and senior management oversight; (b) sound AML policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the Board of Directors; (c) robust internal controls and audit; and (d) effective implementation.

Institutions that are subject to the Act are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for at least five years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

In 2012, two amendments to the Philippines' AML regime came into effect, R.A. No. 10167 and R.A. No. 10168. R.A. No. 10167 amended Section 10 of the AMLA, which require that a petition to the

Court of Appeals for an order to freeze accounts be verified. Furthermore, the Court of Appeals has to act on the petition within a period of 24 hours of filing. The affected depositor's remedy, then, is to file a motion to lift, which the Court of Appeals must resolve within the 20 day freeze period.

Section 11 of the AMLA was likewise amended. Section 11 now provides that the AMLC is authorised to examine bank accounts "upon order of any competent court based on an ex parte application". However, the same provision sets out additional instances when no court application is required.

Further to the above, an order to examine bank accounts receives the same treatment by the Court of Appeals as an order to freeze accounts. Now, the Court of Appeals is compelled to act on such applications within 24 hours of filing.

Also, R.A. No. 10167 has expanded the coverage of AMLC to enable inquiries into so-called "related accounts," defined as: "funds and sources of which originated from and/or are materially linked to the monetary instrument(s) or property(ies) subject of the freeze order(s)."

R.A. No. 10168 defined the crime of financing of terrorism, in accordance with the state policy to protect life, liberty and property from acts of terrorism. The offense is committed by one who "directly or indirectly, wilfully and without lawful excuse, possesses, provides, collects, or uses property or funds or makes available property, funds or financial services or other related services, by any means, with the unlawful and wilful intention that they should be used or with the knowledge that they are to be used, in full and in part: (a) to carry out or facilitate the commission of any terrorist act; (b) by a terrorist organization, association, or group, or (c) by an individual terrorist".

On 15 February 2013, the latest amendment to the anti-money laundering regime, Republic Act No. 10365, was approved. This amendment expanded the coverage of the AMLA, which now talks about "covered persons, natural or juridical." Additions to the enumeration of covered persons include jewelry dealers for transactions in excess of One Million Pesos (₱1,000,000.00); company service providers, or those who form companies for third parties, hold positions as directors or corporate secretaries for third parties, provide business addresses or engage in correspondence or act as nominee shareholder for others. Likewise, the following persons were added to the list: persons (a) who manage their client's money, security or other assets, or (b) who manage bank or securities accounts, or (c) who organize funds for the creation, operation or management of companies, or (d) who create, operate or manage entities or relationships, or (e) buy and sell business entities.

The AMLC plays a central role in the enforcement of this law as the AMLC, *motu propio* or at the request of the Anti-Terrorism Council, is authorised to investigate in order for it to ascertain that there is probable cause that the financing of terrorism is being conducted, planned or facilitated. When the AMLC is satisfied that funds are for terrorist funding, it can issue an ex parte order to freeze, without delay, funds which it has "determined to be related to financing of terrorism or acts of terrorism" or, where there is probable cause to believe that funds are to be used in connection with terrorist activities.

TAXATION

The following is a general description of certain Philippine tax aspects of the Notes. It is based on the laws, regulations, and administrative rulings in force as at the date of this Offering Circular and is subject to any changes in law or regulation occurring after such date, which changes can be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own, or dispose of the Notes. Prospective purchasers should consult their tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding, and disposing of the Notes.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines but who is not a citizen of the Philippines; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines. The term "foreign" when applied to a corporation means a corporation which is not domestic while the term "domestic" when applied to a corporation means a corporation created or organized in the Philippines or under its laws.

Taxation of Interest

The Notes will be treated as deposit substitute instruments. Consequently, interest income earned by individual citizens, resident aliens, and non-resident aliens engaged in trade or business in the Philippines as holders of the unsecured subordinated notes will generally be subject to a 20.0% final withholding tax. However, the Notes may qualify as long-term deposit or investment, in which case, pursuant to Revenue Regulations No. 14-2012 and Revenue Memorandum Circular No. 81-2012, interest income derived by said individuals may be exempt from the said 20.0% final withholding tax provided the following characteristics or conditions are present:

1. The depositor or investor is an individual citizen (resident or non-resident) or resident alien or non-resident alien engaged in trade or business in the Philippines;
2. The long-term deposits or investment certificates should be under the name of the individual and not under the name of the corporation or the bank or the trust department/unit of the bank;
3. The long-term deposits or investments must be in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the BSP;
4. The long-term deposits or investments must be issued by banks only and not by other financial institutions;
5. The long-term deposits or investments must have a maturity period of not less than five (5) years;
6. The long-term deposits or investments must be in denominations of Ten Thousand Pesos (₱10,000) and other denominations as may be prescribed by the BSP;
7. The long-term deposits or investments should not be terminated by the original investor before the fifth (5th) year, otherwise they shall be subjected to the graduated rates of 5%, 12% or 20% on interest income earnings; and
8. Except those specifically exempted by law or regulations, any other income such as gains from trading, foreign exchange gain, shall not be covered by income tax exemption.

Should qualified investors of such instruments pre-terminate the deposit or investment before the fifth (5th) year, a final tax shall be imposed on the entire income and shall be deducted and withheld by the depository bank from the proceeds of the long term deposit or investment certificate based on the remaining maturity thereof:

Four (4) years to less than five (5) years: 5.00%;
Three (3) years to less than four (4) years: 12.00%; and
Less than three (3) years: 20.00%.

Interest Income received by domestic and resident foreign corporations shall be subject to the final withholding tax of 20.0%. Interest income received by non-resident aliens not engaged in trade or business in the Philippines shall generally be subject to a final withholding tax of 25.0%. The foregoing rates may be reduced under an applicable tax treaty.

No tax ruling has been issued by the BIR which clarifies the operation of Revenue Regulation No. 14-2012 vis-à-vis unsecured subordinated debt issuances such as the Notes.

Under Rep. Act No. 9337 (amending the National Internal Revenue Code), interest income received by a non-resident foreign corporation shall generally be subject to the 35.0% final withholding tax provided that effective January 1, 2009, the rate of income tax shall be 30.0%. This rate may also be reduced under an applicable tax treaty.

The BIR has also issued Revenue Memorandum Circular No. 8-2014 (RMC 8-2014) which applies to exemptions from withholding tax in general. Under BIR RMC 8-2014, taxpayers claiming exemption from withholding taxes shall be required by the concerned withholding agent to submit a copy of a valid, current and subsisting tax exemption certificate or ruling, as per existing administrative issuances and any issuance that may be issued from time to time, before payment of related income. If the taxpayer fails to submit the said proof of tax exemption, he or she shall be subjected to the payment of appropriate withholding taxes due on the transaction.

While the income from the Notes may be considered tax exempt under BIR Revenue Regulation No. 14-2012 (RR 14-2012) (although no categorical ruling has been issued by the BIR to this effect), there is no assurance that the BIR will not issue clarificatory regulations making RMC 8-2014 applicable to long term deposit or investment certificates. In such an event, it may be difficult for qualified individual Holders to avail of the tax-exempt nature of the Notes in accordance with RR 14-2012. In such an event, the Bank may be compelled to apply the prescribed rates of withholding tax and proceed withhold the necessary tax due on the Notes based on current regulations.

Documentary Stamp Taxes

The issuance of the Notes will be subject to documentary stamp tax at the rate of P1.00 for every P200.00 of the issue value of such notes. The Bank is liable for the payment of the documentary stamp tax on the original issuance of the Notes. No documentary stamp tax is imposed on the secondary transfer of the Notes.

Taxation on Sale or Other Disposition of Notes

A holder will recognize gains or losses upon the sale or other disposition (including a redemption at maturity) of a Note in an amount equal to the difference between the amount realized from such disposition and the value of such holders interest in the Note. Under the Tax Code, any gain realized from the sale, exchange, or retirement of bonds, debentures, and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures, or other certificates of indebtedness) is exempt from income tax. Since the Notes have a maturity of more than five years from the date of issuance, any gains realized by a holder from the sale of the Notes will be exempt from Philippine income tax.

Value-Added Tax/Gross Receipts Tax

The gross income from the sale or transfer of the Notes in the Philippines by dealers in securities is subject to VAT at the rate of 12.0% of the gross income. Banks and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax as the following rates:

(a) On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is 5 years or less — 5.0%
Maturity period is more than 5 years — 1.0%

(b) On dividends and equity shares and net income of subsidiaries — 0%
(c) On royalties, rentals of property, real or personal, profits, from exchange and all other items treated as gross income under the Tax Code — 7.0%
(d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments — 7.0%

Other nonbank financial intermediaries are subject to gross receipts tax at the following rates:

(a) On interest, commissions, discounts and all other items treated as gross income under the Tax Code– 5.0%
(b) On interests, commissions and discounts from lending activities, as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:
    Maturity period is 5 years or less — 5.0%
    Maturity period is more than 5 years —1.0%

Estate and Donor's Tax

The transfer of Notes as part of the estate of a deceased individual to his heirs, whether or not such individual was a resident of the Philippines at the time of his death, will be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5.0% to 20.0% if the value of the net estate exceeds P200,000.00.

A holder of such Notes will be subject to donor's tax upon the donation of the Notes to strangers at a flat rate of 30.0% of the net gifts. A stranger is defined as any person who is not a brother, sister (whether by whole-or half-blood), spouse, ancestor and lineal descendant or relative by consanguinity in the collateral line within the fourth degree of relationship to the Holder. A donation to a non-stranger will be subject to a donor's tax at progressive rates ranging from 2.0% to 15.0% based on net gifts made during the calendar year in excess of P100,000.00.

The estate tax as well as the donor's tax in respect of the Notes shall not be collected (i) if the deceased at the time of death or the donor at the time of the donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country or (ii) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

OFFER PROCEDURE

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information found elsewhere in this Offering Circular and the Agreements regarding the issuance, maintenance, servicing, trading, and settlement of the Notes. Prospective investors should read this entire Offering Circular and the Agreements fully and carefully. In case of any inconsistency between this summary and the more detailed information in this Offering Circular or the Agreements, then the more detailed portions and/or the Agreements, as the case may be, shall at all times prevail.

Offering Period Procedure

Pursuant to the Issue Management and Placement Agreement dated 22 April 2014, the Selling Agency Agreement dated 22 April 2014 and the Registry and Paying Agency Agreement dated 22 April 2014 (in this section, the "Agreements") entered into by the Issuer with the relevant counterparties, the Notes shall be offered for sale through the Selling Agents during the Offer Period.

Prior to the Offer Period

The Issuer shall enter into the Issue Management and Placement Agreement with the Arranger, the Registry and Paying Agency Agreement with the Registrar and Paying Agent and the Selling Agency Agreement with the Selling Agents and the Limited Selling Agents.

The Offer Period

During the relevant Offer Period, the Issuer, the Arranger, the Selling Agents and the Limited Selling Agents shall solicit subscriptions for the Notes. There shall be no limitation on the amount of Notes that an Applicant may apply for. Each interested investor (an "Applicant") will be required to execute an Application to Purchase in four copies and return the completed Applications to Purchase to the Issuer or the relevant Selling Agent or Limited Selling Agent, as the case may be (with one duplicate to be provided to the Applicant).

Applications to Purchase must be accompanied by payment for the Notes applied for. Payment may be in the form of cash, checks made out to the order of "**PSB TIER 2 NOTES – 2024**", debit instructions or other instructions acceptable to the Issuer or the relevant Selling Agent or Limited Selling Agent, and must cover the entire purchase price. Each of the Issuer, the Selling Agents and the Limited Selling Agents shall determine its own settlement procedure for its Applicants. Each of the Issuer, the Selling Agents and the Limited Selling Agents shall hold the purchase price received from their respective Applicants as deposit for the purchase of the Notes.

Each of the Issuer, the Selling Agents and Limited Selling Agents shall prepare a Schedule of Applications to Purchase (the "Applications Schedule"), which sets out the aggregate amount of Notes applied for by their respective Applicants and summarizes the details of the latter. Each of the Issuer, the Selling Agents and Limited Selling Agents shall deliver their Applications Schedule (together with a copy of each of the completed Applications to Purchase) to the Arranger no later than 5:00 p.m. of the last day of the Offer Period.

Allocation Period

Based on the aggregate amount of Notes applied for, the Arranger shall agree with the Issuer on the total size of the issue.

The Arranger may, at its discretion, reject any Application to Purchase. In addition, if the Notes are insufficient to accommodate all Applications to Purchase, the Arranger may, in consultation with the Issuer, allocate the Notes among the Issuer, the Selling Agents and Limited Selling Agents by accepting or reducing the aggregate amount of Notes covered by the Issuer's and each Selling Agent's and Limited Selling Agent's Applications Schedule. The Arranger shall prepare a report which summarizes the total amount of Applications to Purchase accepted and the allocation of Notes among the Issuer and the various Selling Agents and Limited Selling Agents (the "Allocation Report") and provide the Issuer, the Selling Agents and the Limited Selling Agents with a copy thereof by 5:00 p.m. on the second Banking Day following the end of the Offer Period.

Each of the Issuer, the Selling Agents and Limited Selling Agents shall implement the allocation set out in the Allocation Report and establish its own policies and procedures regarding the allocation of Notes among their respective Applicants. The Issuer, Selling Agents and Limited Selling Agents shall then accept the corresponding Applications to Purchase, prepare a schedule of purchase advices (the "PA Schedule") which summarizes the allocations made among the various Applicants, and execute and issue Purchase Advices in accordance with the PA Schedule to the corresponding Applicants. The Issuer, Selling Agents and Limited Selling Agents shall: (a) deliver the PA Schedule to the Registrar and Paying Agent no later than 5:00 p.m. of the Banking Day immediately preceding the Issue Date; and (b) deliver the executed Purchase Advices to the Registrar and Paying Agent no later than five Banking Days from the Issue Date.

Issue Date

On the Issue Date, the Issuer shall issue Notes with the aggregate Issue Price set out in the Allocation Report.

The Registrar and Paying Agent shall record the initial issuance of the Notes in the Registry and thereafter issue and distribute the relevant Registry Confirmation to the Holders in accordance with the PA Schedule and the executed Purchase Advices issued by the Issuer, the Selling Agents and Limited Selling Agents.

The Issuer, Selling Agents and Limited Selling Agents shall refund any payments made by Applicants whose Applications were rejected or scaled down, in full (in case of rejection) or in a proportionate sum (in case of scale down), in each case, without interest.

SUMMARY OF REGISTRY FEES

Fees Payable by Holders

1.	Account Opening Fee for Secondary Market One-time charge per account and payable by Transferee who has no existing account with the Registry upon submission of request	₱100
2.	Transfer Fee- Trade Transactions (ex. Transfers from Registry to the Depository or vice versa)	₱100 per side transfer
3.	Transfer Fee – Non-trade Transactions	₱100 per side per transaction for intermediated transfers (payable by the transferor or requesting party upon submission of request; e.g. change of custodian bank – no change of beneficial ownership) ₱500 side, plus legal cost, for non-intermediated transfers (e.g. Inheritance, Donation, Pledge)

Report Generation

1.	Specialized reports without back-up file restoration	₱20 per page plus ₱100 per request
2.	Specialized reports requiring back-up file restoration	₱20 per page plus ₱300 per request
3.	PDTC Certification of Holdings	₱200 per certification
4.	Request for monthly statements of account (in addition to the quarterly statement already issued free	₱50 per statement
5.	Request for replacement of Registry Confirmation Advice	₱50 per advice

INDEX TO THE FINANCIAL STATEMENTS

Philippine Savings Bank

Financial Statements
December 31, 2013 and 2012
and for the Years Ended December 31, 2013, 2012 and 2011

and

Independent Auditors' Report

SGV
Building a better
working world

A member firm of Ernst & Young Global Limited

SGV
Building a better working world

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

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

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine Savings Bank

Report on the Financial Statements

We have audited the accompanying financial statements of Philippine Savings Bank, which comprise the statements of condition as at December 31, 2013 and 2012 and the statements of income, the statements of comprehensive income, the statements of changes in equity and the 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 Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philippine Savings Bank as at December 31, 2013 and 2012 and its financial performance and its cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Note 36 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Savings Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

Vicky Lee Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225181, January 2, 2014, Makati City

February 21, 2014

PHILIPPINE SAVINGS BANK
STATEMENTS OF CONDITION

	December 31, 2013	December 31, 2012 (As restated - Note 2)	January 1, 2012 (As restated - Note 2)
ASSETS			
Cash and Other Cash Items	**₱3,157,499,370**	₱2,811,064,294	₱3,921,289,371
Due from Bangko Sentral ng Pilipinas (Note 16)	**7,401,657,444**	5,514,832,823	4,303,595,290
Due from Other Banks	**8,491,340,954**	6,002,439,123	3,736,072,634
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 7)	**14,527,000,000**	6,100,000,000	10,480,000,000
Fair Value Through Profit or Loss Investments (Note 8)	**184,607,411**	120,747,754	54,794,038
Available-for-Sale Investments (Note 8)	**5,649,063,231**	3,309,190,548	18,693,113,028
Held-to-Maturity Investments (Note 8)	–	13,562,925,624	12,313,815,034
Loans and Receivables (Note 9)	**82,917,120,994**	70,412,582,319	58,190,152,155
Investments in an Associate and a Joint Venture (Notes 10 and 29)	**1,346,142,412**	1,237,181,758	1,237,381,423
Property and Equipment (Note 11)	**2,389,780,404**	2,412,337,390	2,382,152,118
Investment Properties (Note 12)	**2,589,408,311**	2,622,918,872	2,802,259,434
Deferred Tax Assets (Note 27)	**243,119,247**	1,024,770,681	1,144,829,464
Goodwill and Intangible Assets (Note 13)	**292,832,054**	231,741,838	255,179,428
Other Assets (Note 14)	**836,302,917**	798,231,274	741,668,569
	₱130,025,874,749	₱116,160,964,298	₱120,256,301,986
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities (Note 16)			
Demand	**₱9,050,826,107**	₱7,400,508,552	₱11,421,806,073
Savings	**16,181,291,134**	12,387,740,595	11,668,374,766
Time	**81,286,386,669**	74,836,037,160	78,460,154,771
	106,518,503,910	94,624,286,307	101,550,335,610
Subordinated Notes (Note 17)	**2,972,366,024**	2,969,797,342	–
Treasurer's, Cashier's and Manager's Checks	**1,110,517,230**	756,629,354	654,513,679
Accrued Taxes, Interest and Other Expenses (Note 18)	**1,099,730,994**	1,054,167,235	1,208,024,456
Income Tax Payable (Note 27)	**132,339**	–	–
Other Liabilities (Notes 19 and 24)	**2,061,548,773**	1,728,845,734	1,315,596,125
	113,762,799,270	101,133,725,972	104,728,469,870
Equity			
Common Stock (Note 21)	**2,402,524,910**	2,402,524,910	2,402,524,910
Capital Paid in Excess of Par Value	**2,818,083,506**	2,818,083,506	2,818,083,506
Surplus Reserves (Note 30)	**1,035,275,317**	1,035,275,317	1,035,275,317
Surplus (Note 21)	**10,205,364,827**	8,718,390,965	7,020,413,054

(Forward)

	December 31, 2013	December 31, 2012 (As restated - Note 2)	January 1, 2012 (As restated - Note 2)
Net Unrealized Gain on Available-for-Sale Investments (Note 8)	**₱22,289,515**	₱206,153,207	₱2,399,747,805
Equity in Net Unrealized Gain on Available-for-Sale Investments of an Associate (Note 10)	**25,000**	–	–
Remeasurement Losses on Retirement Plan (Note 24)	**(178,577,793)**	(85,597,229)	(93,898,031)
Equity in Remeasurement Losses on Retirement Plan of a Joint Venture (Note 10)	**(479,690)**	(181,342)	–
Equity in Cash Flow Hedge Reserve of an Associate (Note 10)	**(335,158)**	–	–
Cumulative Translation Adjustment	**(41,094,955)**	(67,411,008)	(54,314,445)
	16,263,075,479	15,027,238,326	15,527,832,116
	₱130,025,874,749	₱116,160,964,298	₱120,256,301,986

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF INCOME

	Years Ended December 31		
	2013	2012 (As restated - Note 2)	2011
INTEREST INCOME			
Loans and receivables (Note 9)	**₱8,122,435,842**	₱7,081,892,924	₱6,472,860,619
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**478,936,597**	336,035,526	189,599,307
Investment securities (Note 8)	**375,404,035**	1,336,840,933	2,239,511,695
Due from Bangko Sentral ng Pilipinas	**42,216,693**	26,549,545	71,366,834
Due from other banks	**8,242,444**	4,945,432	3,248,372
	9,027,235,611	8,786,264,360	8,976,586,827
INTEREST EXPENSE			
Deposit liabilities (Note 16)	**2,157,685,611**	2,961,531,016	3,229,805,995
Subordinated notes (Note 17)	**175,251,074**	152,868,079	37,327,024
Bills payable	**7,479,125**	75,000	–
	2,340,415,810	3,114,474,095	3,267,133,019
NET INTEREST INCOME	**6,686,819,801**	5,671,790,265	5,709,453,808
Service fees and commission income (Note 22)	**1,040,395,077**	938,869,881	777,049,501
Service fees and commission expense (Note 22)	**77,836,620**	60,245,557	44,171,323
NET SERVICE FEES AND COMMISSION INCOME	**962,558,457**	878,624,324	732,878,178
OTHER OPERATING INCOME (CHARGES)			
Trading and securities gains - net (Note 8)	**4,070,899,035**	2,573,600,581	927,695,530
Gain on foreclosure and sale of investment properties - net (Note 12)	**269,751,500**	140,024,754	186,630,855
Gain on sale of property and equipment (Note 11)	**138,464,473**	5,846,354	3,289,138
Foreign exchange gain (loss)	**(3,877,015)**	12,116,898	562,092
Loss on foreclosure and sale of chattel mortgage properties - net (Note 14)	**(130,927,247)**	(159,596,581)	(58,630,079)
Miscellaneous (Notes 12 and 23)	**181,271,100**	142,950,201	182,920,066
	4,525,581,846	2,714,942,207	1,242,467,602
TOTAL OPERATING INCOME	**12,174,960,104**	9,265,356,796	7,684,799,588
OTHER EXPENSES			
Compensation and fringe benefits (Note 24)	**2,159,694,707**	1,976,264,543	1,899,698,062
Provision for credit and impairment losses (Note 15)	**2,139,561,961**	1,144,720,862	656,088,921
Taxes and licenses (Note 27)	**1,053,840,964**	836,834,289	764,185,382
Occupancy and equipment-related costs (Note 25)	**559,762,849**	552,790,599	485,277,052
Depreciation (Note 11)	**483,260,520**	489,770,896	428,078,287
Security, messengerial and janitorial services	**252,382,828**	234,655,918	193,923,812
Amortization of intangible assets (Note 13)	**68,454,285**	57,238,221	53,124,292
Miscellaneous (Notes 12 and 26)	**1,458,908,377**	1,153,147,180	1,208,296,994
	8,175,866,491	6,445,422,508	5,688,672,802
INCOME BEFORE SHARE IN NET INCOME (LOSS) OF AN ASSOCIATE AND A JOINT VENTURE AND INCOME TAX	**3,999,093,613**	2,819,934,288	1,996,126,786
SHARE IN NET INCOME (LOSS) OF AN ASSOCIATE AND A JOINT VENTURE (Notes 10 and 29)	**109,569,160**	(18,323)	8,271,646
INCOME BEFORE INCOME TAX	**4,108,662,773**	2,819,915,965	2,004,398,432
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**358,673,718**	428,830,779	469,577,763
Deferred	**821,500,247**	116,501,297	(493,938,013)
	1,180,173,965	545,332,076	(24,360,250)
NET INCOME	**₱2,928,488,808**	₱2,274,583,889	₱2,028,758,682
Basic/Diluted Earnings Per Share (Note 28)	**₱12.19**	₱9.47	₱8.44

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2013	2012 (As restated - Note 2)	2011
NET INCOME	**₱2,928,488,808**	₱2,274,583,889	₱2,028,758,682
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that recycle to profit or loss in subsequent periods:			
Net unrealized gains from AFS investments (Note 8)	**(183,863,692)**	(2,193,594,598)	2,044,596,539
Equity in net unrealized gain on available-for-sale investments of an associate (Note 10)	**25,000**	–	–
Equity in cash flow hedge reserve of an associate (Note 10)	**(335,158)**	–	–
Cumulative translation adjustment	**26,316,053**	(13,096,563)	2,774,238
	(157,857,797)	(2,206,691,161)	2,047,370,777
Items that do not recycle to profit or loss in subsequent periods:			
Remeasurement gains (losses) on retirement plan (Note 24)	**(132,829,377)**	11,858,289	–
Equity in remeasurement losses on retirement plan of a joint venture (Note 10)	**(298,348)**	(181,342)	–
Income tax effect (Note 27)	**39,848,813**	(3,557,487)	–
	(93,278,912)	8,119,460	–
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX	**(251,136,709)**	(2,198,571,701)	2,047,370,777
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱2,677,352,099**	₱76,012,188	₱4,076,129,459

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 21)	Capital Paid in Excess of Par Value	Surplus Reserves (Note 30)	Surplus (Note 21)	Net Unrealized Gain on Available-for-Sale Investments (Note 8)	Remeasurement Losses on Retirement Plan (Note 24)	Equity in Net Unrealized Gain on Available-for-Sale Investments of an Associate (Note 10)	Equity in Remeasurement Losses on Retirement Plan of a Joint venture (Note 10)	Equity in Cash Flow Hedge Reserve of an Associate (Note 10)	Cumulative Translation Adjustment	Total
Balance at January 1, 2013, as previously reported	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,275,317**	**₱8,665,409,775**	**₱206,153,207**	**₱–**	**₱–**	**₱–**	**₱–**	**(₱67,411,008)**	**₱15,060,035,707**
Effect of retrospective application of PAS 19 (Revised) (Note 2)	–	–	–	**52,981,190**	–	**(85,597,229)**	–	**(181,342)**	–	–	**(32,797,381)**
Balance at January 1, 2013, as restated	**2,402,524,910**	**2,818,083,506**	**1,035,275,317**	**8,718,390,965**	**206,153,207**	**(85,597,229)**	–	**(181,342)**	–	**(67,411,008)**	**15,027,238,326**
Total comprehensive income (loss) for the year	–	–	–	**2,928,488,808**	**(183,863,692)**	**(92,980,564)**	**25,000**	**(298,348)**	**(335,158)**	**26,316,053**	**2,677,352,099**
Cash dividends (Note 21)	–	–	–	**(1,441,514,946)**	–	–	–	–	–	–	**(1,441,514,946)**
Balance at December 31, 2013	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,275,317**	**₱10,205,364,827**	**₱22,289,515**	**(₱178,577,793)**	**₱25,000**	**(₱479,690)**	**(₱335,158)**	**(₱41,094,955)**	**₱16,263,075,479**
Balance at January 1, 2012, as previously reported	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱6,939,738,262	₱2,399,747,805	₱–	₱–	₱–	₱–	(₱54,314,445)	₱15,541,055,355
Effect of retrospective application of PAS 19 (Revised) (Note 2)	–	–	–	80,674,792	–	(93,898,031)	–	–	–	–	(13,223,239)
Balance at January 1, 2012, as restated	2,402,524,910	2,818,083,506	1,035,275,317	7,020,413,054	2,399,747,805	(93,898,031)	–	–	–	(54,314,445)	15,527,832,116
Total comprehensive income (loss) for the year	–	–	–	2,274,583,889	(2,193,594,598)	8,300,802	–	(181,342)	–	(13,096,563)	76,012,188
Cash dividends (Note 21)	–	–	–	(576,605,978)	–	–	–	–	–	–	(576,605,978)
Balance at December 31, 2012	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱8,718,390,965	₱206,153,207	(₱85,597,229)	₱–	(₱181,342)	₱–	(₱67,411,008)	₱15,027,238,326
Balance at January 1, 2011, as previously reported	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱5,055,131,075	₱355,151,266	₱–	₱–	₱–	₱–	(₱57,088,683)	₱11,609,077,391
Effect of retrospective application of PAS 19 (Revised) (Note 2)	–	–	–	80,674,792	–	(93,898,031)	–	–	–	–	(13,223,239)
Balance at January 1, 2011, as restated	2,402,524,910	2,818,083,506	1,035,275,317	5,135,805,867	355,151,266	(93,898,031)	–	–	–	(57,088,683)	11,595,854,152
Total comprehensive income for the year	–	–	–	2,028,758,682	2,044,596,539	–	–	–	–	2,774,238	4,076,129,459
Cash dividends (Note 21)	–	–	–	(144,151,495)	–	–	–	–	–	–	(144,151,495)
Balance at December 31, 2011	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱7,020,413,054	₱2,399,747,805	(₱93,898,031)	₱–	₱–	₱–	(₱54,314,445)	₱15,527,832,116

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2013	2012 (As restated - Note 2)	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱4,108,662,773**	₱2,819,915,965	₱2,004,398,432
Adjustments to reconcile income before income tax to net cash generated from (used in) operations:			
Realized gain on sale of available-for-sale investments (Note 8)	**(4,101,920,941)**	(2,578,092,037)	(937,165,140)
Provision for credit and impairment losses (Note 15)	**2,139,561,961**	1,144,720,862	656,088,921
Depreciation (Note 11)	**483,260,520**	489,770,896	428,078,287
Loss (gain) on foreclosure and sale of:			
Investment properties (Note 12)	**(269,751,500)**	(140,024,754)	(186,630,855)
Chattel mortgage properties (Note 14)	**130,927,247**	159,596,581	58,630,079
Amortization of:			
Intangible assets (Note 13)	**68,454,285**	57,238,221	53,124,292
Debt issuance costs (Note 17)	**2,568,682**	2,023,042	22,858,968
Gain on sale of property and equipment (Note 11)	**(138,464,473)**	(5,846,354)	(3,289,138)
Unrealized trading (gain) loss on fair value through profit or loss investments (Note 8)	**69,370,851**	(13,400,988)	15,492,338
Accretion of premium (discount) on available-for-sale investments	**40,050,334**	(2,910,809)	4,740,900
Share in net (income) loss of an associate and a joint venture (Notes 10 and 29)	**(109,569,160)**	18,323	(8,271,646)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Fair value through profit or loss investments	**(133,230,508)**	(52,637,331)	798,033,046
Loans and receivables	**(16,277,467,836)**	(14,585,502,550)	(6,792,102,641)
Other assets	**31,368,117**	151,514,571	360,562,143
Increase (decrease) in:			
Deposit liabilities	**11,907,147,369**	(6,932,460,575)	14,032,151,553
Accrued taxes, interest and other expenses	**45,518,923**	(153,862,579)	75,895,998
Treasurer's, cashier's and manager's checks	**353,887,876**	102,115,675	5,080,080
Other liabilities	**374,312,509**	280,200,275	(1,041,246)
Cash generated from (used in) operations	**(1,275,312,971)**	(19,257,623,566)	10,586,634,371
Income taxes paid	**(358,541,379)**	(581,027,268)	(479,395,569)
Net cash provided by (used in) operating activities	**(1,633,854,350)**	(19,838,650,834)	10,107,238,802
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
Held-to-maturity investments	**–**	(2,310,836,826)	(3,708,632,453)
Available-for-sale investments	**(9,442,031,365)**	(2,547,631,076)	(37,970,396,212)
Other intangible assets (Note 13)	**(129,544,501)**	(33,800,631)	(67,619,168)
Property and equipment (Note 11)	**(341,390,933)**	(392,518,800)	(543,808,722)
Proceeds from sale of:			
Available-for-sale investments (Note 8)	**24,316,107,434**	18,318,874,717	38,455,666,062
Chattel mortgage properties (Note 14)	**898,623,700**	675,530,031	499,715,985
Investment properties (Note 12)	**616,169,468**	494,197,154	419,441,067
Property and equipment (Note 11)	**240,849,912**	34,217,685	28,261,806
Proceeds from redemption of held-to-maturity investments at maturity date	**227,265,497**	1,059,435,743	558,072,902
Additional investment in a joint venture (Note 10)	**–**	–	(400,000,000)
Net cash provided by (used in) investing activities	**16,386,049,212**	15,297,467,997	(2,729,298,733)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of subordinated notes (Note 17)	**–**	2,967,774,300	–
Settlement of subordinated notes (Note 17)	**–**	–	(2,000,000,000)
Dividends paid (Note 21)	**(1,615,857,451)**	(435,302,807)	(108,113,622)
Net cash provided by (used in) financing activities	**(1,615,857,451)**	2,532,471,493	(2,108,113,622)
Effect of exchange rate differences	**12,824,117**	(3,909,711)	203,182

(Forward)

	Years Ended December 31		
	2013	2012 (As restated - Note 2)	2011
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**₱13,149,161,528**	(₱2,012,621,055)	₱5,270,029,629
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items (Note 16)	**2,811,064,294**	3,921,289,371	3,163,939,540
Due from Bangko Sentral ng Pilipinas (Note 16)	**5,514,832,823**	4,303,595,290	2,899,592,073
Due from other banks	**6,002,439,123**	3,736,072,634	7,520,836,053
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**6,100,000,000**	10,480,000,000	3,586,560,000
	20,428,336,240	22,440,957,295	17,170,927,666
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items (Note 16)	**3,157,499,370**	2,811,064,294	3,921,289,371
Due from Bangko Sentral ng Pilipinas (Note 16)	**7,401,657,444**	5,514,832,823	4,303,595,290
Due from other banks	**8,491,340,954**	6,002,439,123	3,736,072,634
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**14,527,000,000**	6,100,000,000	10,480,000,000
	₱33,577,497,768	₱20,428,336,240	₱22,440,957,295

OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid	**₱2,384,095,368**	₱3,141,671,886	₱3,253,002,555
Interest received	**9,089,387,982**	7,762,993,426	8,697,535,991

See accompanying Notes to Financial Statements.

1. **Corporate Information**

Philippine Savings Bank (the Bank) was incorporated in the Philippines primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange (PSE). The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer markets. On September 6, 1991, the Bank was authorized to perform trust functions.

As of December 31, 2013 and 2012, the Bank had 224 and 220 branches, respectively. In 2013, the Bank added 19 Automated Tellering Machines (ATMs) in Metro Manila and in provincial locations, bringing its total number of ATMs to 551 as of December 31, 2013 from 532 as of December 31, 2012.

The Bank's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on June 30, 1959. On March 28, 2006, the board of directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired on June 30, 2009, for another 50 years or up to June 30, 2059. The Amended Articles of Incorporation were approved by the SEC on September 27, 2006.

As of December 31, 2013, the Bank is seventy-six percent (76%) owned by Metropolitan Bank & Trust Company (MBTC), its parent company.

The Bank's principal place of business is located at PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City.

2. **Significant Accounting Policies**

Basis of Preparation
The accompanying financial statements have been prepared under the historical cost basis except for fair value through profit or loss (FVPL) investments and available-for-sale (AFS) investments that have been measured at fair value. All values are rounded to the nearest peso unless otherwise stated.

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

The financial statements provide comparative information in respect of the previous period. In addition, the Bank presents an additional statement of condition at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of condition as at January 1, 2012 is presented in these financial statements due to retrospective application of certain accounting policies.

Statement of Compliance
The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The Bank presents its statement of condition in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the statement of condition date (current) and more than twelve (12) months after the statement of condition date (non-current) is presented in Note 20.

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretation, which were adopted as of January 1, 2013.

The following new and amended standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Bank.

New and amended standards and interpretations
- PFRS 10, *Consolidated Financial Statements*
- PFRS 11, *Joint Arrangements*
- PFRS 12, *Disclosure of Interests in Other Entities*
- PAS 27, *Separate Financial Statements* (as revised in 2011)
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
- Philippine Interpretation 20, *Stripping Cost in the Production Phase of a Surface Mine*
- PFRS 1, *First-time Adoption of International Financial Reporting Standards – Government Loans* (Amendments)

Annual Improvements to PFRSs (2009-2011 cycle)
- PFRS 1, *First-time Adoption of PFRS – Borrowing Costs*
- PAS 16, *Property, Plant and Equipment – Classification of servicing equipment*
- PAS 32, *Financial Instruments: Presentation – Tax effect of distribution to holders of equity instruments*
- PAS 34, *Interim Financial Reporting – Interim financial reporting and segment information for total assets and liabilities*

Standards that have been adopted and are deemed to have an impact on the financial statements or performance of the Bank is described below:

PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

The amendments affect disclosures only and have no impact on the Bank's financial condition or performance. The additional disclosures required by the amendments are presented in Note 33 to the financial statements.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard has no significant impact on the fair value measurement of financial assets and liabilities at FVPL, AFS investments, land and buildings. Refer to Note 4 for the disclosures required by the standard.

Application of PFRS 13 has not materially impacted the fair value measurements of the Bank. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 4.

PAS 1, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income or OCI*
The Bank applied the amendments to PAS 1 and changed the grouping of items presented in OCI as follows:

- items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement). These include 'Gain from sale of AFS investments realized in profit or loss', 'Changes in fair values of AFS investments', 'Equity in net unrealized gain on available-for-sale investments of an associate', 'Equity in cash flow hedge reserve of an associate' and 'Cumulative translation adjustment'.

- items that will never be recycled to profit or loss. These include 'Remeasurement gains (losses) on retirement plan' and 'Equity in remeasurement losses on retirement plan of a joint venture'.

The amendments affect presentation only and have no impact on the Bank's financial position or performance.

PAS 19, *Employee Benefits* (Revised)
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

The adoption of PAS 19 (Revised), which required retrospective application, resulted in the restatement of previously reported retirement obligation of the Bank. The adjustment amounts were determined by the Bank with the assistance of an external actuary.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the financial statements are as follows (in thousands):

	December 31, 2012		
	As previously reported	Effect of retroactive application of PAS 19R	As restated
Statement of Condition			
Investments in an associate and a joint venture	₱1,238,694	(₱1,512)	₱1,237,182
Deferred tax assets	1,011,363	13,408	1,024,771
Other liabilities	1,684,152	44,694	1,728,846
Surplus	8,665,410	52,981	8,718,391
Remeasurement losses on retirement plan	–	(85,597)	(85,597)
Equity in remeasurement losses on retirement plan of a joint venture	–	(181)	(181)
	2012		
Statement of Income			
Compensation and fringe benefits	1,937,512	38,753	1,976,265
Provision for income tax - deferred	128,127	(11,626)	116,501
Statement of Comprehensive Income			
Net unrealized loss on remeasurement of retirement liability - net of deferred income tax	–	8,199	8,199

	January 1, 2012		
	As previously reported	Effect of retroactive application of PAS 19R	As restated
Statement of Condition			
Investments in an associate and a joint venture	₱1,238,145	(₱764)	₱1,237,381
Deferred tax assets	1,139,490	5,340	1,144,830
Other liabilities	1,297,797	17,799	1,315,596
Surplus	6,939,738	80,675	7,020,413
Remeasurement losses on retirement plan	–	(93,898)	(93,898)

PAS 1, *Presentation of Financial Statements – Clarification of the requirements for comparative information*
These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result, the Bank has not included comparative information in respect of the opening statement of condition as at January 1, 2012. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

Summary of Significant Accounting Policies

Foreign Currency Translation
The financial statements are presented in Philippine Peso, which is the Bank's functional and presentation currency.

The books of accounts of the RBU are maintained in Philippine Peso, while those of the FCDU are maintained in USD.

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

FCDU
As at the reporting date, the assets and liabilities of the FCDU are translated to the Bank's presentation currency (the Philippine Peso) at the PDS closing rate prevailing at the statement of condition date, and its income and expenses are translated using the exchange rates as at the dates of the transactions. Exchange differences arising on translation to the presentation currency are taken to the statement of comprehensive income under 'Cumulative translation adjustment'. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Fair Value Measurement
The Bank measures financial instruments, such as FVPL investments, AFS investments and derivatives, and non-financial assets such as investment properties, at fair value at each statement of condition date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 4.

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price (e.g. an input from a dealer market), the price between the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and fair value hierarchy as explained above.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks and loans are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for FVPL investments and liabilities, the initial measurement of financial instruments includes transaction costs. The Bank classifies its financial assets in the following categories: FVPL investments, AFS investments, held-to-maturity (HTM) investments, and loans and receivables. Financial liabilities are classified into liabilities at FVPL and other financial liabilities at amortized cost. The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of condition date. As of December 31, 2013 and 2012, the Bank had no financial liabilities at FVPL.

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

Derivatives recorded at FVPL
Derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the statement of income and are included in 'Trading and securities gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. As of December 31, 2013 and 2012, derivatives comprise Republic of the Philippines (ROP) paired warrants acquired to lower the risk weighted assets and improve the capital adequacy ratio of the Bank.

For purposes of hedge accounting, hedges, if any, are classified primarily as either: a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or b) a hedge of the exposure to variability in cash flows attributable to an asset or a liability or a forecasted transaction (cash flow hedge). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow, or net investment hedge provided certain criteria are met.

At the inception of a hedge relationship, the Bank formally designates and documents the hedge relationship to which the Bank wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Bank will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedge
The effective portion of the gain or loss on the hedging instrument is recognized directly as 'Cash flow hedge reserve' in the statement of comprehensive income. Any gain or loss in fair value relating to an ineffective portion is recognized immediately in the statement of income.

Amounts recognized as other comprehensive income are transferred to the statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in the statement of comprehensive income are transferred to the statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss. If the related transaction is no longer expected to occur, the amount is recognized in the statement of income.

Hedge effectiveness testing
To qualify for hedge accounting, the Bank requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method that the Bank adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated.

The Bank's associate has designated its cross currency interest rate swaps as cash flow hedges of the foreign currency and interest rate risks arising from floating interest rate foreign currency-denominated liabilities. In 2013, the Bank recognized its equity in the cash flow hedge reserve of its associate.

Financial assets or financial liabilities held-for-trading (HFT)
Other financial assets or financial liabilities held for trading (classified as FVPL investments) are recorded in the statement of condition at fair value. Changes in fair value relating to the HFT positions are recognized in 'Trading and securities gains - net'. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other 'Miscellaneous' when the right to receive payment has been established.

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

Designated financial assets or financial liabilities at FVPL

Designated financial assets or financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at FVPL upon recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- the financial instrument contains one or more embedded derivatives which significantly modify the cash flow that would otherwise be required by the contract.

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

As of December 31, 2013 and 2012, the Bank had no designated financial assets or financial liabilities at FVPL.

Embedded derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized at fair value through profit or loss.

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

As of December 31, 2013 and 2012, the Bank does not have any embedded derivatives required to be separated from the host contract.

AFS investments

AFS investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as HFT nor designated at FVPL. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in market conditions. The Bank has not designated any loans and receivables as AFS.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in other operating income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as 'Changes in fair values of AFS investments' in OCI.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gains - net' in the statement of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed on a weighted average basis. Interest earned on holding AFS debt investments are reported as interest income using the EIR. Dividends earned on holding AFS equity investments are recognized in the statement of income as 'Miscellaneous' when the right of the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for credit and impairment losses' in the statement of income and removed from 'Changes in fair values of AFS investments' in OCI.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold until maturity. After initial measurement, HTM investments are subsequently measured at amortized cost using the EIR amortization method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income on investment securities' in the statement of income. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for credit and impairment losses'. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

If the Bank were to sell or reclassify more than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would be reclassified as AFS investments. Furthermore, the Bank would be prohibited from classifying any financial asset as HTM investments during the following two years.

Amounts due from Bangko Sentral ng Pilipinas (BSP) and other banks, interbank loans receivable and securities purchased under resale agreements (SPURA), loans and receivables
These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at FVPL;
- those that the Bank, upon initial recognition, designates as AFS; and
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

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

Other financial liabilities carried at amortized cost
This category represents issued financial instruments or their components, which are not designated at FVPL and comprises 'Deposit liabilities', 'Subordinated notes', 'Treasurer's, cashier's and manager's checks', 'Accrued taxes, interest and other expenses', 'Accounts payable', 'Bills purchased-contra', 'Other credits', 'Due to BSP', 'Dividends payable', 'Due to Treasurer of the Philippines' and 'Deposits for keys-Safety deposit boxes (SDB)', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on quoted market prices for similar debt instruments). The equity component being assigned the residual amount after deducting from the fair value of the instrument, as a whole, the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  a. the Bank has transferred substantially all the risks and rewards of the asset, or
  b. the Bank has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In this case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability

and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Repurchase and Reverse Repurchase Agreements
Securities sold under agreements to repurchase at a specified future date (‘repos’) are not derecognized from the statement of condition as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received, including accrued interest, is recognized in the statement of condition as a loan to the Bank, reflecting the economic substance of such transaction.

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

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

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

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

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

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value on the date of reclassification, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.

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

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

Financial assets carried at amortized cost
For financial assets carried at amortized cost, which includes loans and receivables, due from banks and HTM investments, the Bank first assesses individually at each statement of condition date whether objective evidence of impairment exists for financial assets that are individually significant, 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, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. Assets individually assessed for impairment for which no impairment loss was measured are also collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral have been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Provision for credit and impairment losses' in the statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry and age of receivables.

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

Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred 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.

The details of credit and impairment losses on financial assets carried at amortized cost are disclosed in Note 15.

Restructured loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR if the original loan has a fixed interest rate and the current repriced rate if the original loan is repriceable. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the applicable interest rate, is recognized in 'Provision for credit and impairment losses' in the statement of income.

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

In the case of debt instruments classified as AFS investments, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded as impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If, in a subsequent period, the fair value of a debt instrument 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.

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

Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letter of credits/guarantees, real estate, receivables and other non-financial assets and credit enhancements. The fair value of collateral is generally assessed, at a minimum, at inception. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such

as real estate and chattel, is valued based on data provided by third parties such as independent appraisers.

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

Revenue Recognition
Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Bank and these benefits can be measured reliably. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

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

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

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

Service fees and commission income
Fees earned for the provision of services over a period of time are accrued over that period. These fees include fiduciary fees, credit-related fees and other service and management fees.

Trading gains (losses)
Trading gain (loss) represents results arising from trading activities, including all gains and losses from changes in the fair values of financial assets held for trading.

Unrealized gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealized gains and losses for financial instruments which were realized in the reporting period.

Realized gains and losses on disposals of financial instruments at FVPL are calculated using weighted average method. It represents the difference between an instrument's initial carrying amount and disposal amount.

Dividends
Dividend income is recognized when the Bank's right to receive payment is established.

Income from sale of property and equipment, investment property and chattel mortgage properties
Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

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

Expense Recognition
Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash on hand and in banks, amounts due from BSP and interbank loans receivable and SPURA with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents wherein drawings can be made to meet the Bank's cash requirements, as allowed by the BSP.

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

Goodwill is initially measured at cost being the excess of the acquisition cost over the share in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. The Bank's goodwill arose from past purchases of branch business/offices from the Parent Company.

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

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

Investments in an Associate and a Joint Venture
An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The Bank's investment in an associate represents its 25.00% interest in Toyota Financial Services Philippines Corp. (TFSPC), an entity not listed in the PSE.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Bank's investment in a joint venture represents its 40.00% interest in Sumisho Motor Finance Corporation (SMFC), an entity not listed in the PSE.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Bank's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Bank's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of profit or loss reflects the Bank's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Bank's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Bank recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Bank and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Bank's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of a joint venture are prepared for the same reporting period as the Bank. The reporting period of TFSPC is a fiscal year ending March 31. However, TFSPC prepares financial statements for a 12-month period ending December 31 for the use of the Bank in applying the equity method. The length of the reporting period is the same from period to period. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Bank determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as 'Share in net income of an associate and a joint venture' in the statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Bank measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties, including building, furniture, fixtures and equipment, and leasehold improvements, are stated at cost less accumulated depreciation and any accumulated impairment losses. The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged against profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of the property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	25-50 years
Furniture, fixtures and equipment	3-5 years depending on the type of assets
Leasehold improvements	5 years or the term of the related leases, whichever is shorter

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset or CGU are written down to their recoverable amount (see policy on Impairment of Non-financial Assets).

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year-end to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

Investment Properties
Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under investment properties from foreclosure date. Expenditures incurred after the investment properties are recognized, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation and impairment in value, except for land which is stated at cost less impairment in value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the investment properties.

The estimated useful life of building and condominium units ranges from 10 to 40 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in ‘Gain (loss) on sale of investment properties’ in the year of retirement or disposal.

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

Chattel Mortgage Properties
Chattel mortgage properties comprise repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be 5 years.

Intangible Assets
The Bank’s intangible assets include branch licenses and computer software. An intangible asset is recognized only when the cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

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

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

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

Branch licenses
Branch licenses arise from the acquisition of branches from local banks and licenses to operate new branches from the BSP. Branch licenses have indefinite useful lives and are tested for impairment on an annual basis.

Software costs
Software costs are carried at cost less accumulated amortization and any impairment in value. Given the history of rapid changes in technology, computer software are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short. Software costs are amortized on a straight-line basis over 5 years but maybe shorter depending on the period over which the Bank expects to use the asset.

Impairment of Non-financial Assets
Property and equipment, investment properties and chattel mortgage properties
At each statement of condition date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators.

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

An assessment is made at each statement of condition date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized. Such reversal is recognized in the statement of income. After such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGU) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGU) is less than the carrying amount of the CGU (or group of CGU) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Bank performs its annual impairment test of goodwill as at December 31 of each year.

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 of each year, either individually or at the CGU level, as appropriate.

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Investments in an associate and a joint venture
After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on the Bank's investment in an associate and a joint venture. The Bank determines at each statement of condition date whether there is any objective evidence that the investment in an associate and a joint venture are impaired. If this is the case, the Bank calculates the amount of impairment as being the difference between the fair value of the investment in the associate and joint venture and the carrying amount and recognizes such amount in the statement of income.

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

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

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

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

Bank as a lessor
Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on

the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.

Retirement Cost

The Bank has a funded, non-contributory defined benefit retirement plan, administered by the Retirement Committee, covering their permanent employees.

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

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

Defined benefit costs comprise the following:

a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

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

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

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

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

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

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve (12) months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Provisions
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'.

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

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments are included in the measurement basis of the underlying debt instruments and are amortized as an adjustment to the interest on the underlying debt instruments using the effective interest method.

Income Taxes
Income tax on profit or loss for the year comprises current and deferred tax. Income tax is determined in accordance with Philippine tax law. Income tax is recognized in the statement of income, except to the extent that it relates to OCI items recognized directly in the statement of comprehensive income.

Current tax
Current income tax is the expected tax payable on the taxable income for the period, using the tax rates enacted at the statement of condition date, together with adjustments to tax payable in respect to prior years.

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses and tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses and MCIT can be utilized.

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

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

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

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

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to stock dividends declared, stock rights exercised and stock splits, if any, declared during the year. As of December 31, 2013 and 2012, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Bank. Dividends for the year that are approved after the statement of condition date are dealt with as subsequent events.

Subsequent Events
Post year-end events that provide additional information about the Bank's position at the statement of condition date (adjusting events) are reflected in the financial statements.

Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Segment Reporting
The Bank's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6. The Bank's assets generating revenues are all located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

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

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2013

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing consists of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt these standards when they become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended PAS, PFRS and Philippine Interpretations to have significant impact on its financial statements.

PAS 36, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

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

These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirements for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Bank as it does not have any subsidiaries.

Philippine Interpretation 21, *Levies*

Philippine Interpretation 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Philippine Interpretation 21 is effective for annual periods beginning on or after January 1, 2014. The Bank does not expect that Philippine Interpretation 21 will have material financial impact in future financial statements.

PAS 39, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Bank has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (Amendments)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments only affect presentation only and have no impact on the Bank's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 2, *Share-based Payment – Definition of Vesting Condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Bank as it has no share-based payments.

PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Bank shall consider this amendment for future business combinations.

PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the financial position or performance. The Bank does not expect that PFRS 8 will have material impact on its segment disclosures.

PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables*
The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

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

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Bank's financial position or performance.

PAS 24, *Related Party Disclosures – Key Management Personnel*
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Bank's financial position or performance.

PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*
The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

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

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Bank's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Meaning of 'Effective PFRSs'*
The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Bank as it is not a first-time adopter of PFRS.

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

PFRS 13, *Fair Value Measurement – Portfolio Exception*
The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Bank's financial position or performance.

PAS 40, *Investment Property*
The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Bank's financial position or performance.

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model hedge accounting is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the

classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Bank will not adopt the standard before the completion of the limited amendments and the second phase of the project.

Philippine Interpretation 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Bank.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent assets and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods. The effects of any change in judgments, estimates and assumptions are reflected in the financial statements as they become reasonably determinable.

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

Judgments

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

(a) *Classification of operating leases*

Bank as lessor
The Bank has entered into leases on its properties. The Bank has determined based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Bank as lessee
The Bank has entered into leases on the premises it uses for its operations. The Bank has determined, based on an evaluation of the terms and conditions of the lease agreements, that all significant risks and rewards of ownership of the properties it leases on operating lease are not transferable to the Bank.

(b) *Fair value of financial instruments*
When the fair values of financial assets and financial liabilities recorded in the statement of condition cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility for longer-dated derivatives and discount rates, prepayments and default rates assumptions. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of the Bank's financial instruments are disclosed in Note 4.

(c) *Classification of HTM investments*
The classification to HTM investment requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio to AFS investments. The investments would therefore be measured at fair value and not at amortized cost.

(d) *Financial assets not quoted in an active market*
The Bank classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

(e) *Functional currency*
PAS 21, *The Effects of Changes in Foreign Exchange Rates* requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

a. the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
b. the currency in which funds from financing activities are generated; and
c. the currency in which receipts from operating activities are usually retained.

(f) *Change in use of assets*
PAS 40 requires management to use its judgment to determine whether a property qualifies as an investment property. The Bank has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Bank is accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a stand-alone asset are accounted for as property and equipment.

The Bank assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of condition date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

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

(b) *Credit losses on loans and receivables*
The Bank reviews its loans and receivables at each statement of condition date to assess whether an impairment loss should be recorded in the statement of income. In particular, judgment made by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, at which event, the Bank adjusts the impairment loss and ensures that allowance for it remains adequate.

In addition to specific allowance against individually significant loans and receivables, the Bank also provides a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on changes in factors that are indicative of incurred losses, such as deterioration in payment status and underlying property prices, among others.

The carrying value of loans and receivables and allowance for credit losses on loans and receivables are disclosed in Notes 9 and 15, respectively.

(c) *Valuation of unquoted AFS equity investments*
The Bank's investments in equity securities that do not have quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

As of December 31, 2013 and 2012, the carrying amounts of unquoted equity securities amounted to ₱1.4 million (Note 8).

(d) *Impairment of quoted AFS equity investments*
The Bank treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Bank treats 'significant' generally as 20.00% or more of the original cost of the investment, and 'prolonged', greater than twelve (12) months. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities.

The carrying values of the Bank's AFS equity investments are disclosed in Note 8.

(e) *Impairment of non-financial assets*
Property and equipment, investment properties and chattel mortgage properties
The Bank assesses impairment on its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

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

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the fair value less costs to sell for property and equipment, investment properties and chattel mortgage properties. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The carrying values of the Bank's property and equipment, investment properties and chattel mortgage properties are disclosed in Notes 11, 12 and 14, respectively.

Investments in an associate and a joint venture
The Bank assesses impairment on its investment in an associate and a joint venture whenever events or changes in circumstances indicate that the carrying amount of said asset may not be recoverable. Among others, the factors that the Bank considers important which could trigger an impairment review on its investments in an associate and a joint venture include the following:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes (i.e. technological, market, economic, or legal environment in which the associate or joint venture operates with an adverse effect on the associate or joint venture have taken place during the period, or will take place in the near future).

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is determined based on the asset's value in use. As of December 31, 2013 and 2012, the carrying values of the Bank's investments in an associate and a joint venture amounted to ₱1.3 billion and ₱1.2 billion, respectively (Note 10).

Goodwill
The Bank's management conducts an annual review for any impairment in value of goodwill. Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the business is insufficient to support its carrying value. The Bank used its weighted average cost of capital in discounting the expected cash flows from specific CGUs.

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

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 7.66%.

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

As of December 31, 2013 and 2012, the Bank's goodwill amounted to ₱53.6 million (Note 13).

Intangible assets
The Bank's management conducts an annual review for any impairment in value of its intangible assets. Intangible assets are written down for impairment where the recoverable amount is insufficient to support its carrying value. Intangible assets with finite useful lives are assessed for impairment in the same manner as other depreciable non-financial assets. In the case of intangible assets with indefinite useful lives, at a minimum, these are subject to an annual impairment test and more frequently whenever there is an indication that said asset may be impaired. The carrying value of intangible assets is disclosed in Note 13.

(f) *Fair value of investment properties*
The fair values of the Bank's investment properties have been derived on the basis of recent sales of similar properties in the same areas where the investment properties are located, and taking into account the economic conditions prevailing at the time the valuations were made.

The fair value of the Bank's investment properties are disclosed in Note 12.

(g) *Present value of retirement obligation*
The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The details of assumptions used in the actuarial valuation are disclosed in Note 24.

As of December 31, 2013 and 2012, the net pension liability of the Bank amounted to ₱429.5 million and ₱257.1 million, respectively (Note 24).

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

Estimates of future taxable income indicate that temporary differences will be realized in the future. As discussed in Note 27, net deferred tax assets as of December 31, 2013 and 2012 amounted to ₱0.2 billion and ₱1.0 billion, respectively.

(i) *Contingent liabilities*
The Bank is a defendant in legal actions arising from its normal business activities. Management believes that the ultimate liability, if any, resulting from these cases will not have a material effect on the Bank's financial statements (Note 31).

(j) *Estimated useful lives of property and equipment, investment properties, intangible assets and chattel mortgage properties*
The Bank estimates the useful lives of its property and equipment, investment properties, intangible assets and chattel mortgage properties. This estimate is reviewed periodically to ensure that the period of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment, investment properties, software cost and chattel mortgage properties. The estimated useful lives of property and equipment, investment properties, chattel mortgage properties and software cost are disclosed in Note 2. The carrying value of property and equipment, investment properties, intangible assets and chattel mortgage properties are disclosed in Notes 11, 12, 13 and 14, respectively.

4. **Fair Value Measurement**

The following describes the methodologies and assumptions used to determine the fair values of financial instruments:

Cash and other cash items, due from BSP, due from other banks, interbank loans receivable and SPURA, accounts receivable, accrued interest receivable, bills purchased, returned checks and other cash items (RCOCI), shortages, and petty cash fund - Carrying amounts approximate fair values due to the relatively short-term maturities of these assets.

Debt investments - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services, or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology, using rates currently available for debt on similar terms, credit risk and remaining maturities.

Quoted AFS equity investments - Fair values are based on quoted prices published in markets.

Derivative instruments (included under FVPL) - Fair values are estimated based on quoted market prices, prices provided by independent parties, or prices derived using acceptable valuation models.

Unquoted AFS equity investments - Fair values could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. Hence, these investments are carried at cost less allowance for impairment losses.

Currently, there is no available market to sell these unquoted AFS equity investments. The Bank will hold onto these investments until management decides to sell them when there will be offers to buy out such investments or the appearance of an available market where the investments can be sold.

Receivable from customers and other receivables except accounts receivable, accrued interest receivable, bills purchased and security deposits - Fair values are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rates for similar types of loans.

Subordinated notes and time deposits - Fair values are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The Bank's nonperformance risk as at December 31, 2013 was assessed to be insignificant.

Demand deposits, savings deposits, treasurer's, cashier's and manager's checks, accrued interest payable, accounts payable, bills purchased-contra, other credits, due to Treasurer of the Philippines, deposits for keys-SDB, payment orders payable and overages - Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

Investment Properties - Fair values of the investment properties have been derived on the basis of recent sales of similar properties in the same areas where the investment properties are located, and taking into account the economic conditions prevailing at the time the valuations were made.

The following tables summarize the carrying amount and fair values of the financial assets and liabilities, analyzed based on the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Quoted in market prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

	2013				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial Assets					
FVPL investments					
HFT - government securities	**₱184,607**	**₱184,607**	**₱–**	**₱–**	**₱184,607**
AFS investments					
Government debt securities	**5,562,123**	**4,205,436**	**1,356,687**	**–**	**5,562,123**
Private debt securities	**81,627**	**81,627**	**–**	**–**	**81,627**
Quoted equity securities	**3,895**	**3,895**	**–**	**–**	**3,895**
	₱5,832,252	**₱4,475,565**	**₱1,356,687**	**₱–**	**₱5,832,252**
Assets for which fair values are disclosed:					
Financial Assets					
Loans and receivables					
Receivables from customers					
Consumption loans	**₱37,963,039**	**₱–**	**₱41,855,955**	**₱–**	**₱41,855,955**
Real estate loans	**28,013,908**	**–**	**28,072,874**	**–**	**28,072,874**
Commercial loans	**12,418,050**	**–**	**13,235,241**	**–**	**13,235,241**
Personal loans	**3,329,976**	**–**	**3,949,190**	**–**	**3,949,190**
Other receivables					
Sales contract receivable	**257,155**	**–**	**276,879**	**–**	**276,879**
Unquoted debt securities	**198,000**	**–**	**204,499**	**–**	**204,499**
Other assets		**–**		**–**	
Security deposits	**97,034**	**–**	**104,499**	**–**	**104,499**
Non-Financial Assets					
Investment properties	**2,589,408**	**–**	**2,985,199**	**–**	**2,985,199**
	₱84,866,570	**₱–**	**₱90,684,336**	**₱–**	**₱90,684,336**
Financial Liabilities					
Deposit liabilities					
Time	**₱81,286,387**	**₱–**	**₱87,724,257**	**₱–**	**₱87,724,257**
Subordinated notes	**2,972,366**	**–**	**3,504,468**	**–**	**3,504,468**
	₱84,258,753	**₱–**	**₱91,228,725**	**₱–**	**₱91,228,725**

	2012				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVPL investments					
HFT - government securities	₱57,384	₱57,384	₱–	₱–	₱57,384
Derivatives - ROP warrants	63,364	–	63,364	–	63,364
AFS investments					
Government debt securities	3,304,768	2,359,608	945,160	–	3,304,768
Quoted equity securities	3,005	3,005	–	–	3,005
	₱3,428,521	₱2,419,997	₱1,008,524	₱–	₱3,428,521

	2012				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets for which fair values are disclosed:					
Financial Assets					
Loans and receivables					
Receivables from customers					
Consumption loans	₱31,096,451	₱–	₱32,109,360	₱–	₱32,109,360
Real estate loans	22,384,657	–	22,393,012	–	22,393,012
Commercial loans	11,233,030	–	11,258,606	–	11,258,606
Personal loans	3,409,304	–	5,088,084	–	5,088,084
Other receivables					
Sales contract receivable	351,938	–	352,232	–	352,232
Unquoted debt securities	1,164,134	–	1,353,582	–	1,353,582
Other assets		–		–	
Security deposits	95,619	–	105,914	–	105,914
Non-Financial Assets					
Investment properties	2,622,919	–	2,870,243	–	2,870,243
	₱72,358,052	₱–	₱75,531,033	₱–	₱75,531,033
Financial Liabilities					
Deposit liabilities					
Time	₱74,836,037	₱–	₱78,087,042	₱–	₱78,087,042
Subordinated notes	2,969,797	–	3,397,383	–	3,397,383
	₱77,805,834	₱–	₱81,484,425	₱–	₱81,484,425

There have been no transfers between Level 1 and Level 2 in 2013 and 2012.

As of December 31, 2013, the fair value of the Bank's ROP warrants is classified as Level 3. Due to the unavailability of quoted market prices, evidence of an active market and the sale of the Bank's ROP Global Paired Bonds, the Bank wrote down the carrying value of its warrants to zero.

A reconciliation of the opening and closing balance of financial instruments classified as Level 3 are as follows:

Fair value measurement using significant unobservable inputs (Level 3)

	Derivatives
Opening balance	₱–
Transfers into Level 3[a,b]	63,363,959
Total losses for the period included in profit or loss	(63,363,959)
Closing balance	₱–
Change in unrealized losses for the period included in profit or loss for assets held at the end of the reporting period	(₱63,363,959)

(a) Transferred from Level 2 to Level 3 due to lack of observable market data, resulting from a decrease in market activity to the instruments.
(b) The Bank's policy is to recognize transfers into and out of Level 3 as of the date of the event or change in circumstances that caused the transfer.

Other than these factors mentioned, there are no significant unobservable inputs used by the Bank to arrive at the carrying value of the ROP warrants.

5. Financial Risk Management Policies and Objectives

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

Organization risk management structure continues to be a top-down organization, with the BOD at the helm of all major initiatives.

Discussed below are the relevant sections on roles and responsibilities from the Risk Oversight Committee (ROC) Charter:

BOD
The corporate powers of the Bank are vested in and are exercised by the BOD, who conducts its business and controls its property. The BOD approves broad risk management strategies and policies and ensures that risk management initiatives and activities are consistent with the Bank's overall objectives. The BOD appoints the members of the ROC.

ROC
The ROC is composed of at least three members of the Board, including at least one (1) independent director, and a chairperson who is a non-executive member. Members of the ROC possess a range of expertise and adequate knowledge of the Bank's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur.

The BOD may also appoint non-directors to the ROC as part of the Metrobank Group risk oversight measures. However, only Bank directors shall be considered as voting members of the ROC. Non-voting members are appointed in an advisory capacity.

The ROC oversees the system of limits to discretionary authority that the BOD delegates to the management and ensures that the system remains effective, the limits are observed, and that immediate corrective actions are taken whenever limits are breached.

The ROC meets on a monthly basis and is supported by the Risk Management Office (RMO). In the absence of the ROC Chairman, a non-executive director shall preside. ROC resolutions, which require the concurrence of the majority of its voting members, are presented to the BOD for confirmation.

RMO
The RMO, headed by the Chief Risk Officer, is a function that is independent from executive functions and business line responsibilities, operations and revenue-generating functions. It reports directly to the BOD, through the ROC. The RMO assists the ROC in carrying out its responsibilities by:

- analyzing, communicating, implementing, and maintaining the risk management policies approved by the ROC and the BOD;
- spearheading the regular review of the Bank's risk management policy manual and making or elevating recommendations that enhance the risk management process to the ROC and the BOD, for their approval; and

- ensuring that the risks arising from the Bank's activities are identified, measured, analyzed, reported to and understood by risk takers, management, and the board. The RMO analyzes limit exceptions and recommends enhancements to the limits structure.

The RMO does not assume risk-taking accountability nor does it have approving authority. The RMO's role is to act as liaison and to provide support to the BOD, ROC, the President, management committees, risk takers and other support and control functions on risk-related matters.

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

President
The President is the Chief Executive Officer of the Bank and has the primary responsibility of carrying out the policies and objectives of the BOD. The President exercises the authorities delegated to him by the BOD and may recommend such policies and objectives he deems necessary for the continuing progress of the Bank.

Risk management
The risk management framework aims to maintain a balance between the nature of the Bank's businesses and the risk appetite of the BOD. Accordingly, policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the ROC and the BOD for approval.

a. Credit risk and concentration of assets and liabilities and off-balance sheet items

Credit risk is the risk that a counterparty will not settle its obligations in accordance with the agreed terms.

The Bank's lending business follows credit policy guidelines set by the BOD, ROC and RMO. These policies serve as minimum standards for extending credit. The people engaged in the credit process are required to understand and adhere to these policies.

Product manuals are in place for all loans and deposit products that actually or potentially expose the Bank to all types of risks that may result in financial or reputational losses. They define the product and the risks associated with the product plus the corresponding risk-mitigating controls. They embody the business plans and define the business parameters within which the product or activity is to be performed.

The system of checks around extension of credit includes approval by at least two credit approvers through the Credit Committee (CreCom), Executive Committee (ExCom) or BOD. The ROC reviews the business strategies and ensures that revenue-generating activities are consistent with the risk tolerance and standards of the Bank. The Internal Audit Group conducts regular audit across all functional units. The BOD, through the ExCom, CreCom and ROC, ensure that sound credit policies and practices are followed through all the business segments.

Credit Approval
Credit approval is the documented acceptance of credit risk in the credit proposal or application.

The Bank's credit decision-making for consumer loans utilizes the recommendation of the credit scoring and is performed at the CreCom level appropriate to the size and risk of each transaction, in conformity with corporate policies and procedures in regulating credit risk activities. The Bank's ExCom may approve deviations or exceptions, while the BOD approves material exceptions such as large exposures, loans to directors, officers, stockholders and other related interests (DOSRI), and loan restructuring.

Credit delegation limits are identified, tracked and reviewed at least annually by the Bank's Senior Credit Officer together with the Credit Risk Manager.

Borrower Eligibility
The Bank's credit processing commences when a customer expresses his intention to borrow through a credit application. The Bank gathers data on the customer; ensures they are accurate, up-to-date and adequate to meet the minimum regulatory requirements and to render credit decision. These data are used for the intended purpose only and are managed in adherence to the customer information secrecy law.

The customer's credit worthiness, repayment ability and cash flow are established before credit is extended. The Bank independently verifies critical data from the customer, ensuring compliance with Know Your Customer requirements under the anti-money laundering laws. The Bank requires that customer income be derived from legitimate sources and supported with government-accepted statements of income, assets and liabilities.

The Bank ascertains whether the customer is legally capable of entering a credit contract and of providing a charge over any asset presented as collateral for a loan. Guarantors or sureties may be accepted, provided they are a relative, partner, and have financial interest in the transaction, and they pass all credit acceptance criteria applied to the borrower.

Loan Structure
The Bank structures loans for its customers based on the customer's capability to pay, the purpose of the loan, and for a collateralized loan, the collateral's economic life and liquidation value over time.

The Bank establishes debt burden guidelines and minimum income requirements to assess the customer's capacity to pay.

The Bank utilizes credit bureau data, both external and internal, to obtain information on a customer's current commitments and credit history. These are sourced from the databases of the Banker's Association of the Philippines and the Credit Management Association of the Philippines.

The Bank takes into account environmental and social issues when reviewing credit proposals of small businesses and commercial mortgage customers. The Bank ensures that all qualified securities pass through the BOD for approval. Assignments of securities are confirmed and insurance are properly secured.

The Bank uses credit scoring models and decision systems for consumer loans as approved by the BOD. Borrower risk rating model and facility risk rating model, on the other hand, are available for SME loans, and supported with qualitative evaluation. Regular monitoring of all these tools and their performance is carried out to ensure that they remain effective.

Initial loan limits are recommended by the CreCom and ExCom and approved by the BOD. The Bank ensures that secured loans are within ceilings set by local regulators. Succeeding loan availments are based on account performance and customer's credit worthiness.

The CreCom and ExCom recommend to the BOD any credit exceptions that merit approval provided they are supported by strong business rationale. The Bank relays credit approval at once through Short Messaging Service but loan proceeds are paid out after documentations are completed.

Credit Management

The Bank maintains credit records and documents on all borrowings and captures transaction details in its loan systems. The credit risk policies and system infrastructure ensure that loans are monitored and managed at all times.

The Bank's Management Information System provides statistics that its business units need to identify opportunities for improving rewards without necessarily sacrificing risk. Statistical data on product, productivity, portfolio, profitability, performance and projection are made available regularly.

The Bank conducts regular loan review through the ROC, with the support of the RMO. The Bank examines its exposures, credit risk ratios, provisions and customer segments. The Bank's unique customer identification and unique group identification methodology enables it to aggregate credit exposures by customer or group of borrowers. Aggregate exposures of at least ₱0.1 billion are put on a special monitoring.

The ROC assesses the adequacy of provisions for credit losses regularly. The Bank's automated loan grading system enables the Bank to set up provision per account. The Bank also performs impairment analyses on loans and receivables, whether on an individual or collective basis, in accordance with PFRS.

The Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators. In 2013, enhanced stress testing models and stress limits were implemented for consumer loans.

Maximum Exposure to Credit Risk

The tables below show the analysis of the maximum exposure to credit risk of the Bank's financial instruments, excluding those where the carrying values as reflected in the statement of condition and related notes already represent the financial instrument's maximum exposure to credit risk, after taking into account collateral held or other credit enhancements (in thousands):

	2013			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancement**
Due from other banks	**₱1,021,853**	**₱3,327,117**	**₱–**	**₱1,021,853**
Securities Purchased Under Resale Agreements	**14,527,000**	**15,674,389**	**–**	**14,527,000**
Receivables from customers				
Consumption loans	**37,963,039**	**55,640,634**	**10,058**	**37,952,981**
Real estate loans	**28,013,908**	**54,334,022**	**–**	**28,013,908**
Commercial loans	**3,725,021**	**7,008,866**	**1,049,932**	**2,675,089**
Other receivables				
Accrued interest receivable	**631,068**	**1,232,799**	**–**	**631,068**
Sales contract receivable	**257,155**	**552,811**	**–**	**257,155**
Total credit exposure	**₱86,139,044**	**₱137,770,638**	**₱1,059,990**	**₱85,079,054**

	2012			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Due from other banks	₱834,246	₱3,434,408	₱–	₱834,246
Securities Purchased Under Resale Agreements	4,750,000	4,745,893	4,107	4,745,893
Receivables from customers				
Consumption loans	31,096,451	46,932,047	58,485	31,037,966
Real estate loans	22,384,656	49,957,205	–	22,384,656
Commercial loans	4,317,443	4,312,835	1,951,693	2,365,750
Other receivables				
Accrued interest receivable	661,246	197,219	464,026	197,220
Sales contract receivable	351,938	830,035	–	351,938
Total credit exposure	₱64,395,980	₱110,409,642	₱2,478,311	₱61,917,669

Collateral and Other Credit Enhancements

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

The main types of collaterals obtained are as follows:

- For Due from other banks: investment securities
- For SPURA: investment securities
- For commercial lending: mortgages over real estate properties, deposit accounts and securities
- For consumer lending: mortgages over real estate and chattel

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for credit and impairment losses.

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

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and generally are updated every two years and when a loan is assessed to be impaired, whenever applicable. Generally, collateral is not held over loans and advances to banks except for SPURA. The Bank is not allowed to sell or re-pledge collateral held under SPURA in the absence of default by the counterparty. Collateral usually is not held against investment securities, and no such collateral was held as of December 31, 2013 and 2012.

Concentration of risk is managed by borrower, by group of borrowers, by geographical region and by industry sector. As of December 31, 2013 and 2012, the maximum credit exposure to any borrower amounted to ₱2.7 billion and ₱2.0 billion, respectively, before taking into account any collateral or other credit enhancement.

The distribution of the Bank's financial assets before taking into account any collateral held or other credit enhancements can be analyzed by the following geographical regions (in thousands):

	2013			
	Banking Activities	**Trading Activities**	**Others**	**Total**
Luzon	**₱38,346,605**	**₱11,497,740**	**₱62,453,231**	**₱112,297,576**
Visayas	**205,388**	**364,293**	**4,896,313**	**5,465,994**
Mindanao	**273,548**	**662,488**	**5,504,665**	**6,440,701**
	38,825,541	**12,524,521**	**72,854,209**	**124,204,271**
Less allowance for credit and impairment losses	**968,416**	**291,240**	**3,588,816**	**4,848,472**
Total	**₱37,857,125**	**₱12,233,281**	**₱69,265,393**	**₱119,355,799**

	2012			
	Banking Activities	Trading Activities	Others	Total
Luzon	₱24,738,136	₱21,666,586	₱53,009,720	₱99,414,442
Visayas	155,257	366,367	4,573,036	5,094,660
Mindanao	226,079	591,403	5,014,003	5,831,485
	25,119,472	22,624,356	62,596,759	110,340,587
Less allowance for credit and impairment losses	1,033,584	242,647	3,833,645	5,109,876
Total	₱24,085,888	₱22,381,709	₱58,763,114	₱105,230,711

Others include counterparties that are in real estate, public utilities, mining and quarrying, services, agriculture and other community, social and personal activities.

Additionally, the tables below show the distribution of the Bank's financial assets and off-balance sheet items before taking into account any collateral or other credit enhancements analyzed by industry sector as of December 31, 2013 and 2012 (in thousands):

	2013				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Real estate, renting and business activities	**₱27,338,942**	**₱–**	**₱–**	**₱–**	**₱27,338,942**
Other community, social and personal activities	**22,050,961**	**–**	**–**	**19,413**	**22,070,374**
Wholesale and retail trade	**16,958,965**	**–**	**–**	**–**	**16,958,965**
Transportation, storage and communication	**6,313,193**	**–**	**–**	**–**	**6,313,193**
Financial intermediaries	**5,962,757**	**30,419,998**	**5,879,681**	**111,596**	**42,374,032**
Public administration and defense compulsory social security	**3,613,324**	**–**	**–**	**–**	**3,613,324**
Electricity, gas and water	**531,051**	**–**	**–**	**–**	**531,051**
Manufacturing	**1,909,536**	**–**	**–**	**–**	**1,909,536**
Hotel and restaurants	**1,088,590**	**–**	**–**	**–**	**1,088,590**
Construction	**1,077,213**	**–**	**–**	**54,000**	**1,131,213**
Private households	**190,206**	**–**	**–**	**–**	**190,206**
Agricultural, hunting and forestry	**16,439**	**–**	**–**	**–**	**16,439**
Mining and quarrying	**42,557**	**–**	**–**	**–**	**42,557**
Others	**625,849**	**–**	**–**	**–**	**625,849**
	87,719,583	**30,419,998**	**5,879,681**	**185,009**	**124,204,271**
Less allowance for credit and impairment losses	**4,802,462**	**–**	**46,010**	**–**	**4,848,472**
Total	**₱82,917,121**	**₱30,419,998**	**₱5,833,671**	**₱185,009**	**₱119,355,799**

	2012				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Real estate, renting and business activities	₱24,548,858	₱–	₱–	₱–	₱24,548,858
Other community, social and personal activities	16,877,587	–	–	38,575	16,916,162
Wholesale and retail trade	16,472,254	–	–	2,058	16,474,312
Transportation, storage and communication	5,373,611	–	–	–	5,373,611
Financial intermediaries	4,149,393	17,617,272	17,038,874	113,360	38,918,899
Public administration and defense compulsory social security	2,788,316	–	–	–	2,788,316
Electricity, gas and water	1,727,394	–	–	–	1,727,394
Manufacturing	1,633,859	–	–	–	1,633,859
Hotel and restaurants	696,231	–	–	–	696,231
Construction	631,188	–	–	54,000	685,188
Private households	238,975	–	–	–	238,975
Agricultural, hunting and forestry	72,952	–	–	–	72,952
Mining and quarrying	16,137	–	–	–	16,137
Others	249,693	–	–	–	249,693
	75,476,448	17,617,272	17,038,874	207,993	110,340,587
Less allowance for credit and impairment losses	5,063,866	–	46,010	–	5,109,876
Total	₱70,412,582	₱17,617,272	₱16,992,864	₱207,993	₱105,230,711

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.

** Composed of FVPL investments, AFS investments and HTM investments.

*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines.

Credit Quality
Description of the loan grades for loans, receivables and stand-by credit lines:

Interim Credit Rating System
The Bank rates accounts on a scale of 1 to 10, with 1 being the best, based on the Board-approved interim credit rating system which utilizes both the credit scoring results and BSP loan grading system.

Neither Past Due nor Individually Impaired
The Bank classifies those accounts under current status having the following loan grades:

High Grade (ICRS 1 - 4)
1 - Excellent
This is considered as normal risk by the Bank. An excellent rating is given to a borrower who has the ability to meet credit obligation in full and is never delinquent.

2 - Strong
This is also considered as normal risk by the Bank. Borrower has the ability to meet credit obligation in full, except that the borrower had history of 1-29 days delinquency at worst.

3 - Good
This rating is given to a borrower who has the ability to meet credit obligation in full, except that the borrower had history of rating of Loans Especially Mentioned (ICRS=7) at worst.

4 - Satisfactory
This rating is given to a borrower who has the ability to meet credit obligation in full, except that the borrower had history of rating of Substandard (ICRS=8) at worst.

Standard Grade (ICRS 5 - 7)
5 - Acceptable
An acceptable rating is given to a borrower who meets present obligations, except that the borrower had history of Doubtful (ICRS=9) at worst.

6 - Watchlist
This rating is given to a borrower who meets present obligations, except that the borrower had history of Loss (ICRS=10) at worst.

7 - Loan Especially Mentioned
This rating is given to a borrower who has potential weaknesses which when left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

Substandard Grade (ICRS 8)
8 - Substandard
A substandard rating is given to a borrower whose loan or portion thereof involves a substantial and an unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. These loans show possibility of future loss to the Bank unless given closer supervision and well-defined weaknesses that jeopardize the loan liquidation.

Past Due but Not Individually Impaired
These are accounts which are classified as delinquent but are not subject to individual impairment as of statement of condition date.

9 - Doubtful
This rating is given to a borrower whose loans have characteristics where collection and liquidation in full is highly improbable and in which substantial loss is probable.

10 - Loss
This rating is given to a borrower whose loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted.

Unrated grade
Other credit assets which cannot be classified as High, Standard or Sub-standard are tagged as Unrated.

Individually Impaired
Accounts which are subject to individual impairment as of statement of condition date.

The tables below show the credit quality per class of financial assets under loans and receivables (in thousands)*:

	2013						
	Neither Past Due nor Individually Impaired				**Past Due but not Individually Impaired**	**Individually Impaired**	**Total**
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**			
Loans and advances to banks							
Due from BSP	**₱–**	**₱7,401,657**	**₱–**	**₱–**	**₱–**	**₱–**	**₱7,401,657**
Due from other banks	–	**8,491,341**	–	–	–	–	**8,491,341**
Interbank loans receivable and SPURA	–	**14,527,000**	–	–	–	–	**14,527,000**
Receivables from customers							
Consumption loans	**27,193,171**	**5,035,722**	**98,884**	–	**6,216,732**	**617,970**	**39,162,479**
Real estate loans	**18,657,065**	**3,891,189**	**1,170,497**	–	**4,028,029**	**1,028,991**	**28,775,771**
Commercial loans	**11,227,170**	**338,138**	**765,668**	–	**318,221**	**785,505**	**13,434,702**
Personal loans	**2,771,258**	**529,121**	**207,640**	–	**658,165**	**78,531**	**4,244,715**
Other receivables							
Accrued interest receivable	**353,910**	**159,237**	**14,214**	–	**113,710**	**305,749**	**946,820**
Sales contract receivable	**230,901**	–	**17,865**	–	**19,796**	**18,313**	**286,875**
Unquoted debt instruments	**200,000**	–	–	–	–	**95,611**	**295,611**
Accounts receivable	**57,482**	**294**	**206**	–	**284,391**	**180,568**	**522,941**
Bills purchased	–	–	–	**49,669**	**–**	**–**	**49,669**
Other assets							
Security deposits	–	–	–	**97,034**	–	–	**97,034**
RCOCI	–	–	–	**14,270**	–	–	**14,270**
Shortages	–	–	–	**291**	–	–	**291**
Total	**₱60,690,957**	**₱40,373,699**	**₱2,274,974**	**₱161,264**	**₱11,639,044**	**₱3,111,238**	**₱118,251,176**

*Shown gross of allowance for credit and impairment losses

	2012						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Loans and advances to banks							
Due from BSP	₱–	₱5,514,833	₱–	₱–	₱–	₱–	₱5,514,833
Due from other banks	–	6,002,439	–	–	–	–	6,002,439
Interbank loans receivable and SPURA	–	6,100,000	–	–	–	–	6,100,000
Receivables from customers							
Consumption loans	25,764,357	1,052,517	302,176	–	4,692,517	–	31,811,567
Real estate loans	16,065,368	1,757,714	395,520	–	3,051,333	467,625	21,737,560
Commercial loans	10,665,760	364,541	290,722	–	763,183	872,818	12,957,024
Personal loans	3,759,613	74,199	30,744	–	1,879,850	–	5,744,406

(Forward)

	2012						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Other receivables							
Accrued interest receivable	₱289,938	₱254,234	₱857	₱–	₱102,650	₱361,293	₱1,008,972
Sales contract receivable	272,073	–	28,473	–	59,856	18,313	378,715
Unquoted debt instruments	1,164,134	–	–	–	–	95,611	1,259,745
Accounts receivable	38,348	120	10	–	299,723	178,680	516,881
Bills purchased	–	–	–	61,578	–	–	61,578
Other assets							
Security deposits	–	–	–	95,619	–	–	95,619
RCOCI	–	–	–	17,644	–	–	17,644
Shortages	–	–	–	97	–	–	97
Total	₱58,019,591	₱21,120,597	₱1,048,502	₱174,938	₱10,849,112	₱1,994,340	₱93,207,080

*Shown gross of allowance for credit and impairment losses

External Ratings

In ensuring quality investment portfolio, the Bank uses the credit risk rating based on the rating of Moody's Investors Service (Moody's rating) as follows:

Credit Quality	**External Rating**								
High grade	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2	B3				
Substandard grade	Caa1	Caa2	Caa3	Ca	C					

High grade - represents those investments which fall under any of the following grade:

Aaa - fixed income obligations are judged to be of the highest quality, with the smallest degree of risk.

Aa1, Aa2, Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1, A2, A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.

Standard grade - represents those investments which fall under any of the following grade:

Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.

B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.

Substandard grade - represents those investments which fall under any of the following grade:

Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.

Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

The tables below show the credit quality per class of investment securities (in thousands)*:

	2013						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**			
FVPL investments							
HFT - government securities	**₱–**	**₱184,607**	**₱–**	**₱–**	**₱–**	**₱–**	**₱184,607**
AFS investments							
Government debt securities	–	**5,562,123**	–	–	–	–	**5,562,123**
Private debt securities	–	**81,627**	–	–	–	–	**81,627**
Quoted equity securities	–	–	**5,311**	–	–	**773**	**6,084**
Unquoted equity securities	–	–	–	–	–	**45,239**	**45,239**
Total	**₱–**	**₱5,828,357**	**₱5,311**	**₱–**	**₱–**	**₱46,012**	**₱5,879,680**

*Shown gross of allowance for credit and impairment losses

	2012						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
FVPL investments							
HFT - government securities	₱–	₱57,384	₱–	₱–	₱–	₱–	₱57,384
Derivatives - ROP warrants	–	63,364	–	–	–	–	63,364
AFS investments							
Government debt securities	–	3,304,768	–	–	–	–	3,304,768
Quoted equity securities	–	–	–	–	–	5,194	5,194
Unquoted equity securities	–	–	–	–	–	45,239	45,239
HTM investments							
Treasury notes	–	9,593,865	–	–	–	–	9,593,865
Government bonds	–	3,969,060	–	–	–	–	3,969,060
Total	₱–	₱16,988,441	₱–	₱–	₱–	₱50,433	₱17,038,874

*Shown gross of allowance for credit and impairment losses

Impairment Assessment

Impairment losses are recognized based on the results of a specific (individual) and collective assessment of credit exposures. Impairment has taken place when there is a presence of known difficulties in the payments of obligation by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened or when there is inability to pay principal or interest overdue beyond a threshold (e.g., 90 days). These and other factors, either singly or in tandem with other factors, constitute observable events or data that meet the definition of objective evidence of impairment.

Individually assessed allowances

The Bank determines the allowances appropriate for each significant loan or advance on an individual basis. Items considered when determining amounts of allowances include an account's age, payment and collection history, timing of expected cash flows and realizable value of collateral.

The Bank sets criteria for specific loan impairment testing and uses the discounted cash flow methodology to compute for impairment loss. Accounts subjected to specific impairment and that are found to be impaired shall be excluded from the collective impairment computation.

Collectively assessed allowances

Allowances are assessed collectively for losses on commercial loans and advances that are not individually significant or are found to be not individually impaired. Impairment losses are estimated by taking into consideration the historical losses on the portfolio and the expected receipts and recoveries once impaired. The Bank is responsible for deciding the length of historical loss period which can extend for as long as five years. The impairment allowance is then reviewed by the Bank to ensure alignment with the Bank's overall policy.

The Bank uses the Net Flow Rate method to determine the credit loss rate of a particular delinquency age bucket based on historical data of flow-through and flow-back of loans across specific delinquency age buckets. The method applies to consumer loans, as well as salary and home equity loans granted to employees of the Bank. For commercial loans, the Bank uses Historical Loss Rate method in determining the credit loss rate based on the actual historical loss experienced by the Bank on each specific industry type.

Aging Analysis of Past Due but not Individually Impaired Loans per Class of Financial Assets
The succeeding tables show the total aggregate amount of gross past due but not individually impaired loans and receivables *per delinquency bucket.* Under PFRS, a financial asset is past due when the counterparty has failed to make a payment when contractually due (in thousands)*:

	2013					
	Past Due but not Individually Impaired					
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**	**Over 180 days**	**Total**
Loans and receivables						
Receivables from customers						
Consumption loans	**₱3,260,783**	**₱1,193,254**	**₱471,740**	**₱373,342**	**₱917,613**	**₱6,216,732**
Real estate loans	**2,185,064**	**663,816**	**222,951**	**135,392**	**820,806**	**4,028,029**
Commercial loans	**121,785**	**50,158**	**3,594**	**5,218**	**137,466**	**318,221**
Personal loans	**77,210**	**29,592**	**27,816**	**85,930**	**437,617**	**658,165**
Other receivables						
Accrued interest receivable	**40,001**	**20,071**	**10,168**	**11,319**	**32,151**	**113,710**
Sales contract receivable	–	–	–	**6,378**	**13,418**	**19,796**
Accounts receivable	**2,771**	**4,048**	**916**	**2,589**	**274,067**	**284,391**
Total	**₱5,687,614**	**₱1,960,939**	**₱737,185**	**₱620,168**	**₱2,633,138**	**₱11,639,044**

*Shown gross of allowance for impairment and credit losses

	2012					
	Past Due but not Individually Impaired					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
Loans and receivables						
Receivables from customers						
Consumption loans	₱2,478,894	₱954,556	₱388,874	₱297,618	₱572,575	₱4,692,517
Real estate loans	2,133,861	651,740	199,463	37,238	29,031	3,051,333
Commercial loans	662,896	42,345	345	12,304	45,293	763,183
Personal loans	236,539	56,091	40,363	87,037	1,459,820	1,879,850
Other receivables						
Accrued interest receivable	39,252	15,526	7,534	5,358	34,980	102,650
Sales contract receivable	29,954	9,750	4,924	4,448	10,780	59,856
Accounts receivable	16,950	2,016	796	1,666	278,295	299,723
Total	₱5,598,346	₱1,732,024	₱642,299	₱445,669	₱2,430,774	₱10,849,112

*Shown gross of allowance for impairment and credit losses

b. Market risk

Market risk management covers the areas of trading and interest rate risks. The Bank utilizes various measurement and monitoring tools to ensure that risk-taking activities are managed within instituted market risk parameters. The Bank revalues its trading portfolios on a daily basis and checks the revenue or loss generated by each portfolio in relation to their level of market risk.

The Bank's risk policies and implementing guidelines are regularly reviewed by the Assets and Liabilities Committee (ALCO), ROC and BOD to ensure that these are up-to-date and in line with changes in the economy, environment and regulations. The ROC and the BOD set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in.

Market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments (trading market risk) and from movements in interest rates (interest rate risk). The Bank's market risk originates primarily from holding peso and dollar-denominated debt securities. The Bank utilizes Value-at-Risk (VaR) to measure and manage market risk exposure. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given confidence level over a specified holding period.

Trading activities
The Bank's trading portfolios are currently composed of peso and dollar-denominated sovereign debt securities that are marked-to-market daily. The Bank also uses VaR to measure the extent of market risk exposure arising from these portfolios.

VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model uses historical simulation for Peso and USD HFT portfolios with confidence level at 99.00% and a 1 day holding period. It utilizes a 260 days rolling data most recently observed daily percentage changes in price for each asset class in its portfolio.

VaR reports are prepared on a daily basis and submitted to Treasury and RMO. VaR is also reported to the ROC and BOD on a monthly basis. The President, ROC and BOD are advised of potential losses that exceed prudent levels or limits.

When there is a breach in VaR limits, Treasury is expected to close or reduce their position and bring it down within the limit unless approval from the President is obtained to retain the same. All breaches are reported to the President for regularization. In addition to the regularization and approval of the President, breaches in VaR limits and special approvals are likewise reported to the ROC and BOD for their information and confirmation.

Back-testing is employed to verify the effectiveness of the VaR model. The Bank performs back-testing to validate the VaR model and stress testing to determine the impact of extreme market movements on the portfolios. Results of backtesting are reported to the ROC and BOD on a monthly basis. Stress testing is also conducted, based on historical maximum percentage daily movement and on an ad-hoc rate shock to estimate potential losses in a crisis situation.

The Bank has established position, VaR, stop loss limits and loss triggers, for its trading portfolios. Daily profit or losses of the trading portfolios are closely monitored against loss triggers and stop-loss limits.

Responsibility for managing the Bank's trading market risk remains with the ROC. With the support of RMO, the ROC recommends to the BOD changes in market risk limits, approving authorities and other activities that need special consideration.

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

a. VaR is a statistical estimate and thus, does not give the precise amount of loss;
b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk;

c. Historical simulation does not involve any distributional assumptions, scenarios that are used in computing VaR are limited to those that occurred in the historical sample; and
d. VaR systems are backward-looking. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Major shifts therefore (i.e., an unexpected collapse of the market) are not captured and may inflict losses much bigger than anything the VaR model may have calculated.

The Bank's interest rate VaR follows (in thousands):

	January 1 to May 31, 2013[1]		**June 1 to December 31, 2013[2]**		2012	
	Peso	**USD**	**Peso**	**USD**	Peso	USD
Year-end	**3,820**	–	–	–	–	–
Year to date average	**3,914**	**41,168**	–	–	3,675	2,516
High	**10,063**	**1,154**	**7,638**	–	13,135	10,390
Low	**1,790**	**507**	**1,213**	–	7	221

[1] *Using Bloomberg Historical Value at Risk*
[2] *Using Internal Model Historical Value at Risk*

Non-trading activities

Interest Rate Risk
The Bank follows a prudent policy on managing its assets and liabilities to ensure that fluctuations in interest rates are kept within acceptable limits.

One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of "gap" analysis. This analysis provides the Bank with a static view of the maturity and repricing characteristics of the positions in its statement of condition. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier. Non-maturing deposits are considered as non-interest rate sensitive liabilities; no loan pre-payments assumptions are used. The difference in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The interest rate sensitivity gap report measures interest rate risk by identifying gaps between the repricing dates of assets and liabilities. The Bank's sensitivity gap model calculates the effect of possible rate movements on its interest rate profile.

The Bank uses sensitivity gap model to estimate Earnings-at-Risk (EaR) should interest rates move against its interest rate profile. The Bank's EaR limits are based on a percentage of the Bank's projected earnings for the year. The Bank also performs stress-testing analysis to measure the impact of extreme interest rate movements. The EAR and stress testing reports are prepared on a monthly basis.

The ALCO is responsible for managing the Bank's structural interest rate exposure. The ALCO's goal is to achieve a desired overall interest rate profile while remaining flexible to interest rate movements and changes in economic conditions. The RMO and ROC review and oversee the Bank's interest rate risks.

The tables below demonstrate the sensitivity of net interest income and equity to reasonably possible changes in interest rates. Net interest income sensitivity was calculated by assuming interest rate shifts upon repricing of floating-rate financial instruments. Equity sensitivity was computed by calculating mark-to-market changes of AFS debt instruments, assuming a parallel shift in the yield curve.

	2013						
			Sensitivity of Equity				
	Change in basis points	**Sensitivity of net interest income**	**0 up to 6 months**	**Over 6 months to 1 year**	**Over 1 year to 5 years**	**More than 5 years**	**Total**
			(Amounts in Pesos)				
Currency							
PHP	**+10**	**(27,291,526)**	**–**	**(36,357)**	**(4,182,201)**	**(45,161,855)**	**(49,380,413)**
USD	**+10**	**2,131,666**	**–**	**–**	**(56,988)**	**(860,699)**	**(917,687)**
Currency							
PHP	**-10**	**27,291,526**	**–**	**7,473**	**3,965,105**	**44,137,954**	**48,110,532**
USD	**-10**	**(2,131,666)**	**–**	**–**	**57,084**	**878,646**	**935,730**

	2012						
			Sensitivity of Equity				
	Change in basis points	Sensitivity of net interest income	0 up to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	More than 5 years	Total
			(Amounts in Pesos)				
Currency							
PHP	+10	(31,999,914)	(5,263)	(342,953)	(229,024)	(29,549,207)	(30,126,447)
USD	+10	(85,865)	256,017	–	–	–	256,017
Currency							
PHP	-10	31,999,914	(4,067)	363,798	201,262	30,433,681	30,994,674
USD	-10	85,865	288,044	–	–	–	288,044

The impact on the Bank's equity excludes the impact on transactions affecting the statement of income.

<u>Foreign Currency Risk</u>

Foreign currency risk is the risk of an investment's value changing due to an adverse movement in currency exchange rates. It arises due to a mismatch in the Bank's foreign currency assets and liabilities.

The Bank's policy is to maintain foreign currency exposure within the approved position, stop loss, loss trigger, VaR limits and to remain within existing regulatory guidelines. To compute for VaR, the Bank uses historical simulation model for USD/PHP FX position, with confidence level at 99% and a 1 day holding period. The Bank's VaR for its foreign exchange position for trading and non-trading activities are as follows (in thousands):

	January 1 to May 31, 2013[1]	**June 1 to December 31, 2013[2]**	2012
As of year-end		**₱426**	₱1,031
Year to date average		**839**	1,040
High	**₱1,569**	**1,956**	1,952
Low	**251**	**14**	16

[1] *Using Bloomberg Historical Value at Risk*
[2] *Using Internal Model Historical Value at Risk*

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2013 and 2012. Included in the table are the Bank's assets and liabilities at carrying amounts (in thousands):

	2013	2012
Assets		
Cash	**$1,708**	$1,608
Due from other banks	**178,904**	135,692
FVPL investments	**–**	2,941
AFS investments	**3,968**	3,028
HTM investments	**–**	79,636
Other assets	**81**	1,904
Total assets	**184,661**	224,809
Liabilities		
Deposit liabilities		
Savings deposits	**$31,001**	$25,566
Time deposits	**151,114**	197,328
Accrued taxes, interest and other expenses	**1,230**	698
Other liabilities	**1,355**	659
Total liabilities	**184,700**	224,251
Net exposure	**($39)**	$558

c. *Liquidity Risk*

The Bank's policy on liquidity management emphasizes on three elements of liquidity, namely, cash flow management, ability to borrow in the interbank market, and maintenance of a stock of high quality liquid assets. These three approaches complement one another with greater weight being given to a particular approach, depending upon the circumstances. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool that the Bank uses for monitoring its liquidity is the Maximum Cumulative Outflow (MCO) reports, which is also called liquidity gap or maturity matching gap reports. The MCO is a useful tool in measuring and analyzing the Bank's cash flow projections and monitoring liquidity risks. The liquidity gap report shows the projected cash flows of assets and liabilities representing estimated funding sources and requirements under normal conditions, which also forms the basis for the Bank's Contingency Funding Plan (CFP). The CFP projects the Bank's funding position during both temporary and long-term liquidity changes to help evaluate the Bank's funding needs and strategies under changing market conditions.

The Bank discourages dependence on large funds providers (LFPs) by capping the concentration of LFPs as a percentage of total deposits. This ensures that the Bank will not be vulnerable to a substantial drop in deposit level as a result of an outflow due to large depositors.

To mitigate potential liquidity problems caused by unexpected withdrawals of significant deposits, the Bank takes steps to cultivate good business relationships with clients and financial institutions, maintains high level of liquid assets, monitors the deposit funding concentrations and regularly updates the Liquidity Contingency Funding Plan.

Financial assets

Analysis of equity and debt securities at FVPL and AFS investments into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date and does not consider the behavioral pattern of the creditors. When the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

Analysis of Financial Assets and Liabilities by Remaining Maturities

The tables below show the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations (in millions):

	2013							
	On demand	**Up to 1 month**	**Over 1 to 3 months**	**Over 3 to 6 months**	**Over 6 to 12 months**	**Total within 1 year**	**Beyond 1 year**	**Total**
Financial Assets								
FVPL investments								
HFT - government securities	**₱185**	**₱–**	**₱–**	**₱–**	**₱–**	**₱185**	**₱–**	**₱185**
AFS investments								
Government securities	**–**	**12**	**41**	**90**	**194**	**337**	**8,637**	**8,974**
Private debt securities	**–**	**1**	**1**	**1**	**3**	**6**	**196**	**202**
Quoted equity securities	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**5**
Unquoted equity securities	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Loans and receivables								
Loans and advances to banks								
Due from BSP	**7,402**	**–**	**–**	**–**	**–**	**7,402**	**–**	**7,402**
Due from other banks	**8,491**	**–**	**–**	**–**	**–**	**8,491**	**–**	**8,491**
Interbank loans receivable and SPURA	**–**	**14,538**	**–**	**–**	**–**	**14,538**	**–**	**14,538**
Receivables from customers								
Consumption loans	**93**	**–**	**101**	**326**	**1,280**	**1,800**	**39,721**	**41,521**
Real estate loans	**183**	**–**	**378**	**674**	**1,656**	**2,891**	**26,086**	**28,977**
Commercial loans	**1,025**	**–**	**443**	**354**	**1,476**	**3,298**	**10,213**	**13,511**
Personal loans	**884**	**102**	**318**	**503**	**1,223**	**3,030**	**1,446**	**4,476**
Other receivables								
Accrued interest receivable	**851**	**–**	**15**	**22**	**60**	**948**	**–**	**948**
Sales contract receivable	**20**	**–**	**–**	**1**	**9**	**30**	**258**	**288**
Unquoted debt instruments	**–**	**–**	**–**	**205**	**–**	**205**	**96**	**301**
Accounts receivable	**459**	**56**	**3**	**3**	**2**	**523**	**–**	**523**
Other assets								
Security deposits	**–**	**6**	**4**	**8**	**18**	**36**	**61**	**97**
RCOCI	**14**	**–**	**–**	**–**	**–**	**14**	**–**	**14**
	₱19,607	**₱14,715**	**₱1,304**	**₱2,187**	**₱5,921**	**₱43,734**	**₱86,720**	**₱130,454**

	2013							
	On demand	**Up to 1 month**	**Over 1 to 3 months**	**Over 3 to 6 months**	**Over 6 to 12 months**	**Total within 1 year**	**Beyond 1 year**	**Total**
Financial Liabilities								
Deposit liabilities								
Demand	**₱9,051**	**₱–**	**₱–**	**₱–**	**₱–**	**₱9,051**	**₱–**	**₱9,051**
Savings	**16,181**	**–**	**–**	**–**	**–**	**16,181**	**–**	**16,181**
Time	**–**	**54,747**	**7,639**	**1,560**	**1,901**	**65,847**	**20,459**	**86,306**
	25,232	**54,747**	**7,639**	**1,560**	**1,901**	**91,079**	**20,459**	**111,538**
Subordinated notes	**–**	**–**	**43**	**43**	**86**	**172**	**4,251**	**4,423**
Treasurer's, cashier's and manager's checks	**1,111**	**–**	**–**	**–**	**–**	**1,111**	**–**	**1,111**
Accrued interest payable	**–**	**–**	**150**	**20**	**–**	**170**	**–**	**170**

(Forward)

	2013							
	On demand	**Up to 1 month**	**Over 1 to 3 months**	**Over 3 to 6 months**	**Over 6 to 12 months**	**Total within 1 year**	**Beyond 1 year**	**Total**
Accrued other expenses payable	**₱871**	**₱–**	**₱–**	**₱–**	**₱–**	**₱871**	**₱–**	**₱871**
Other liabilities								
Accounts payable	**–**	**–**	**–**	**1,067**	**–**	**1,067**	**–**	**1,067**
Other credits	**297**	**–**	**–**	**–**	**–**	**297**	**–**	**297**
Dividends payable	**–**	**2**	**–**	**–**	**–**	**2**	**–**	**2**
Bills purchased - contra	**50**	**–**	**–**	**–**	**–**	**50**	**–**	**50**
Due to Treasurer of the Philippines	**11**	**–**	**–**	**–**	**–**	**11**	**–**	**11**
Deposit for keys	**1**	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Others	**2**	**–**	**–**	**–**	**–**	**2**	**–**	**2**
	₱27,575	**₱54,749**	**₱7,832**	**₱2,690**	**₱1,987**	**₱94,833**	**₱24,710**	**₱119,543**

	2012 (As restated - Note 2)							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Assets								
FVPL investments								
HFT - government securities	₱57	₱–	₱–	₱–	₱–	₱57	₱–	₱57
Derivatives - ROP warrants	63	–	–	–	–	63	–	63
AFS investments								
Government securities	–	30	125	39	479	673	5,710	6,383
Quoted equity securities	–	–	–	–	–	–	5	5
Unquoted equity securities	–	–	–	–	–	–	1	1
HTM investments								
Treasury notes	–	2	–	194	499	695	22,784	23,479
Government bonds	–	–	12	543	133	688	6,105	6,793
Loans and receivables								
Loans and advances to banks								
Due from BSP	5,515	–	–	–	–	5,515	–	5,515
Due from other banks	6,002	–	–	–	–	6,002	–	6,002
Interbank loans receivable and SPURA	6,100	–	–	–	–	6,100	–	6,100
Receivables from customers								
Consumption loans	1,772	27	25	79	221	2,124	39,384	41,508
Real estate loans	73	–	4	27	39	143	22,689	22,832
Commercial loans	648	2	2	31	252	935	11,576	12,511
Personal loans	1,524	24	24	72	225	1,869	3,813	5,682
Bills discounted	12	–	–	–	–	12	–	12
Other receivables								
Accrued interest receivable	757	1	108	8	135	1,009	–	1,009
Sales contract receivable	3	–	35	2	4	44	649	693
Unquoted debt instruments	–	11	–	19	37	67	1,218	1,285
Accounts receivable	506	–	1	–	10	517	–	517
Other assets								
Security deposits	–	7	4	5	14	30	66	96
RCOCI	18	–	–	–	–	18	–	18
	₱23,050	₱104	₱340	₱1,019	₱2,048	₱26,561	₱114,000	₱140,561

	2012 (As restated - Note 2)							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Liabilities								
Deposit liabilities								
Demand	₱7,401	₱–	₱–	₱–	₱–	₱7,401	₱–	₱7,401
Savings	12,388	–	–	–	–	12,388	–	12,388
Time	–	52,578	5,370	1,395	3,310	62,653	16,837	79,490
	19,789	52,578	5,370	1,395	3,310	82,442	16,837	99,279
Subordinated notes	–	–	43	43	86	172	4,423	4,595
Treasurer's, cashier's and manager's checks	757	–	–	–	–	757	–	757
Accrued interest payable	–	185	–	–	–	185	–	185
Accrued other expenses payable	805	–	–	–	–	805	–	805

(Forward)

	2012 (As restated - Note 2)							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Other liabilities								
Accounts payable	₱–	₱–	₱–	₱865	₱–	₱865	₱–	₱865
Other credits	155	–	–	–	–	155	–	155
Dividends payable	–	177	–	–	–	177	–	177
Bills purchased-contra	62	–	–	–	–	62	–	62
Due to Treasurer of the Philippines	7	–	–	–	–	7	–	7
Deposit for keys	1	–	–	–	–	1	–	1
Others	2	–	–	–	–	2	–	2
	₱21,578	₱52,940	₱5,413	₱2,303	₱3,396	₱85,630	₱21,260	₱106,890

6. Segment Information

The Bank's operating segments are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit that offers different products and serves different markets. The Bank's reportable segments are as follows:

a. Consumer Banking - principally provides consumer-type loans generated by the Home Office;
b. Corporate Banking - principally handles loans and other credit facilities for small and medium enterprises, corporate and institutional customers acquired in the Home Office;
c. Branch Banking - serves as the Bank's main customer touch point which offers consumer and corporate banking products; and
d. Treasury - principally handles institutional deposit accounts, providing money market, trading and treasury services, as well as managing the Bank's funding operations by use of government securities and placements and acceptances with other banks.

These segments are the bases on which the Bank reports its primary segment information. The Bank evaluates performance on the basis of information about the components of the Bank that senior management uses to make decisions about operating matters. There are no other operating segments than those identified by the Bank as reportable segments. There were no inter-segment revenues and expenses included in the financial information. The Bank has no single customer with revenues from which is 10.00% or more of the Bank's total revenue.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Primary segment information (by business segment) for the years ended December 31, 2013, 2012 and 2011 follows (in thousands):

	2013				
	Consumer Banking	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
Operating income					
Interest income	**₱1,798,034**	**₱492,637**	**₱6,128,314**	**₱608,251**	**₱9,027,236**
Service fees and commission	**220,196**	**49,405**	**770,794**	**–**	**1,040,395**
Other operating income	**46,827**	**157,687**	**254,046**	**4,067,022**	**4,525,582**
Total operating income	**2,065,057**	**699,729**	**7,153,154**	**4,675,273**	**14,593,213**
Non-cash expenses					
Depreciation and amortization	**106,655**	**11,038**	**364,415**	**1,153**	**483,261**
Provision for credit and impairment losses	**748,974**	**91,839**	**1,298,749**	**–**	**2,139,562**
Amortization of other intangible assets	**26,650**	**4,793**	**36,451**	**560**	**68,454**
Total non-cash expenses	**882,279**	**107,670**	**1,699,615**	**1,713**	**2,691,277**
Interest expense	**–**	**–**	**1,703,983**	**636,432**	**2,340,415**
Service fees and commission expense	**16,474**	**3,696**	**57,667**	**–**	**77,837**
Subtotal	**16,474**	**3,696**	**1,761,650**	**636,432**	**2,418,252**

(Forward)

	2013				
	Consumer Banking	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
Compensation and fringe benefits	**₱395,481**	**₱89,349**	**₱1,664,982**	**₱9,883**	**₱2,159,695**
Taxes and licenses	**210,690**	**28,738**	**462,779**	**351,634**	**1,053,841**
Occupancy and equipment-related costs	**48,048**	**8,216**	**503,494**	**5**	**559,763**
Security, messengerial and janitorial services	**46,550**	**5,455**	**199,554**	**824**	**252,383**
Miscellaneous	**463,682**	**77,420**	**905,158**	**12,648**	**1,458,908**
Subtotal	**1,164,451**	**209,178**	**3,735,967**	**374,994**	**5,484,590**
Income (loss) before share in net income of an associate and a joint venture and income tax	**1,853**	**379,185**	**(44,078)**	**3,662,134**	**3,999,094**
Share in net income of an associate and a joint venture	**–**	**109,569**	**–**	**–**	**109,569**
Income (loss) before income tax	**1,853**	**488,754**	**(44,078)**	**3,662,134**	**4,108,663**
Provision for income tax					**1,180,174**
Net income					**₱2,928,489**
Segment assets	**₱49,098,520**	**₱10,296,750**	**₱33,326,752**	**₱35,714,592**	**₱128,436,614**
Investments in an associate and a joint venture					**1,346,142**
Deferred tax assets					**243,119**
Total assets					**₱130,025,875**
Segment liabilities	**₱455,304**	**₱99,653**	**₱85,968,305**	**₱27,239,537**	**₱113,762,799**

	2012 (As restated - Note 2)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱1,598,928	₱326,587	₱5,901,663	₱959,086	₱8,786,264
Service fees and commission	140,696	64,531	733,643	–	938,870
Other operating income (loss)	38,143	(30,144)	121,226	2,585,717	2,714,942
Total operating income	1,777,767	360,974	6,756,532	3,544,803	12,440,076
Non-cash expenses					
Depreciation and amortization	122,139	14,777	351,396	1,459	489,771
Provision for credit and impairment losses	578,390	49,558	516,773	–	1,144,721
Amortization of other intangible assets	21,668	3,987	31,018	565	57,238
Total non-cash expenses	722,197	68,322	899,187	2,024	1,691,730
Interest expense	–	–	1,549,662	1,564,812	3,114,474
Service fees and commission expense	9,028	4,142	47,076	–	60,246
Subtotal	9,028	4,142	1,596,738	1,564,812	3,174,720
Compensation and fringe benefits	327,360	83,857	1,553,056	11,991	1,976,264
Taxes and licenses	122,060	29,295	477,227	208,252	836,834
Occupancy and equipment-related costs	36,165	6,153	510,473	–	552,791
Security, messengerial and janitorial services	41,270	4,418	188,400	568	234,656
Miscellaneous	312,846	34,307	790,742	15,252	1,153,147
Subtotal	839,701	158,030	3,519,898	236,063	4,753,692
Income before share in net loss of an associate and a joint venture and income tax	206,841	130,480	740,709	1,741,904	2,819,934
Share in net loss of an associate and a joint venture	–	(18)	–	–	(18)
Income before income tax	206,841	130,462	740,709	1,741,904	2,819,916
Provision for income tax					545,332
Net income					₱2,274,584
Segment assets	₱23,916,405	₱10,280,884	₱46,723,289	₱32,978,433	₱113,899,011
Investments in an associate and a joint venture					1,237,182
Deferred tax assets					1,024,771
Total assets					₱116,160,964
Segment liabilities	₱556,440	₱144,985	₱72,686,179	₱27,746,122	₱101,133,726

	2011 (As restated - Note 2)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱1,513,696	₱381,437	₱5,626,918	₱1,454,536	₱8,976,587
Service fees and commissions	109,924	43,730	623,395	–	777,049
Other operating income	42,503	17,625	259,971	922,369	1,242,468
Total operating income	1,666,123	442,792	6,510,284	2,376,905	10,996,104

(Forward)

	2011 (As restated - Note 2)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Non-cash expenses					
Depreciation	₱113,934	₱14,509	₱298,033	₱1,602	₱428,078
Provision for credit and impairment losses	192,103	227,051	236,935	–	656,089
Amortization of intangible assets	20,929	3,709	28,014	472	53,124
Total non-cash expenses	326,966	245,269	562,982	2,074	1,137,291
Interest expense	–	–	2,104,518	1,162,615	3,267,133
Service fees and commissions expense	6,248	2,486	35,437	–	44,171
Subtotal	6,248	2,486	2,139,955	1,162,615	3,311,304
Compensation and fringe benefits	341,956	81,488	1,463,329	12,925	1,899,698
Taxes and licenses	113,703	26,874	476,182	147,426	764,185
Occupancy and equipment-related costs	34,257	5,744	445,131	145	485,277
Security, messengerial and janitorial services	40,665	3,303	149,462	494	193,924
Miscellaneous	193,954	44,536	886,603	83,204	1,208,297
Subtotal	724,535	161,945	3,420,707	244,194	4,551,381
Income before share in net income of an associate and a joint venture and income tax	608,374	33,092	386,639	968,022	1,996,127
Share in net income of an associate and a joint venture	–	8,272	–	–	8,272
Income before income tax	608,374	41,364	386,639	968,022	2,004,399
Benefit from income tax					(24,360)
Net income					₱2,028,759
Segment assets	₱20,986,922	₱7,665,449	₱39,901,337	₱49,320,383	₱117,874,091
Investments in an associate and a joint venture					1,237,381
Deferred tax assets					1,144,829
Total assets					₱120,256,301
Segment liabilities	₱508,123	₱116,847	₱72,154,420	₱31,949,080	₱104,728,470

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of the following:

	2013	2012
Interbank loans receivable (Note 29)	**₱–**	₱1,350,000,000
SPURA	**14,527,000,000**	4,750,000,000
	₱14,527,000,000	₱6,100,000,000

SPURA are lending to counterparties collateralized by government securities. The Bank is not permitted to sell or repledge the related collateral in the absence of default by the counterparty.

Interest income on interbank loans receivable and SPURA are as follows:

	2013	2012	2011
Interbank loans receivable	**₱25,619,027**	₱74,202,957	₱11,425,626
SPURA	**453,317,570**	261,832,569	178,173,681
	₱478,936,597	₱336,035,526	₱189,599,307

8. Fair Value Through Profit or Loss, Available-for-Sale and Held-to-Maturity Investments

FVPL investments consist of the following:

	2013	2012
HFT securities (Note 29)	**₱184,607,411**	₱57,383,795
ROP warrants	**–**	63,363,959
	₱184,607,411	₱120,747,754

As of December 31, 2013 and 2012, the Bank has outstanding ROP paired warrants which give the Bank the option or right to exchange its holdings of ROP Global Bonds (Paired Bonds) into peso-denominated government securities upon occurrence of a pre-determined credit event. Paired Bonds shall be risk weighted at 0.00%, provided that the 0.00% risk weight shall be applied only to the Bank's holdings of Paired Bonds equivalent to not more than 50.00% of the total qualifying capital. Further, the Bank's holdings of said warrants, booked in the FVPL category, are likewise exempted from capital charge for market risk as long as said instruments are paired with ROP Global Bonds up to a maximum of 50.00% of the total qualifying capital. In 2013, the Bank sold its paired bonds that resulted in holding ROP warrants without paired instrument and with no active market.

On August 19, 2009, the BSP approved the Bank's application for Type 3 Limited User Authority for plain vanilla foreign exchange (FX) forwards, which is limited to outright buying or selling of FX forwards at a specific price and date in the future and do not include non-deliverable forwards.

As of December 31, 2013 and 2012, the Bank has no outstanding forward buy and sell contracts.

AFS investments consist of the following:

	2013	2012
Government securities (Notes 29 and 30)	**₱5,562,123,285**	₱3,304,767,708
Private debt securities	**81,627,315**	–
Equity securities		
Quoted	**6,083,796**	5,194,005
Unquoted	**45,239,002**	45,239,002
	5,695,073,398	3,355,200,715
Less allowance for impairment losses	**46,010,167**	46,010,167
	₱5,649,063,231	₱3,309,190,548

Movements in the net unrealized gain on AFS investments follow:

	2013	2012
Balance at beginning of year	**₱206,153,207**	₱2,399,747,805
Gains from sale of AFS investments realized in profit or loss	**(4,101,920,941)**	(2,578,092,037)
Changes in fair values of AFS investments	**3,918,057,249**	384,497,439
	(183,863,692)	(2,193,594,598)
Balance at end of year	**₱22,289,515**	₱206,153,207

In 2013 and 2012, the Bank sold a significant portion of its government securities classified as AFS investments, resulting in net realized trading gain of ₱4.1 billion and ₱2.6 billion.

As of December 31, 2013 and 2012, there were no movements in the allowance for impairment losses on AFS quoted and unquoted equity securities amounting to ₱2.2 million and ₱43.8 million, respectively.

As of December 31, 2013 and 2012, National Food Authority bonds classified as AFS investments and treasury notes classified under HTM investments, respectively, both with total face value of ₱50.0 million are pledged by the Bank to MBTC to secure its payroll account with MBTC (Note 29).

HTM investments consist of the following:

	2013	2012
Treasury notes (Note 29)	**₱–**	₱9,593,865,308
Government bonds	**–**	3,969,060,316
	₱–	₱13,562,925,624

Interest income on investment securities consists of:

	2013	2012	2011
FVPL investments	**₱3,897,789**	₱9,367,598	₱18,227,678
AFS investments	**208,967,472**	352,849,005	1,374,710,363
HTM investments	**162,538,774**	974,624,330	846,573,654
	₱375,404,035	₱1,336,840,933	₱2,239,511,695

Peso-denominated AFS investments bear nominal annual interest rates ranging from 2.13% to 9.13% in 2013, 0.00% to 9.13% in 2012, and 0.00% to 14.00% in 2011 while foreign currency-denominated AFS investments bear nominal annual interest rates ranging from 4.00% to 8.88% in 2013, 9.00% in 2012, and 6.38% to 9.50% in 2011. Effective interest rates on AFS financial assets as of December 31, 2013, 2012, and 2011 range from 3.84% to 5.22%, 4.70% to 6.23% and 5.00% to 9.51%, respectively.

On the other hand, peso-denominated HTM investments bear nominal annual interest rates ranging from 6.38% to 18.25% in 2012 and 4.57% to 18.25% in 2011, while foreign currency-denominated HTM investments bear nominal annual interest rates ranging from 5.00% to 10.63% in 2012 and 6.38% to 9.50% in 2011.

Trading and securities gains - net on investment securities consist of:

	2013	2012	2011
FVPL investments			
Realized	**₱38,348,945**	(₱17,892,444)	₱6,022,728
Unrealized	**(69,370,851)**	13,400,988	(15,492,338)
	(31,021,906)	(4,491,456)	(9,469,610)
AFS investments (Note 29)	**4,101,920,941**	2,578,092,037	937,165,140
	₱4,070,899,035	₱2,573,600,581	₱927,695,530

Reclassification of Financial Assets

In March 2013, as approved by its BOD, the Bank reclassified the entire HTM portfolio to AFS investments as the Bank no longer intends to hold them up to their maturity but rather stands ready to sell such investments.

Such change of intention was primarily driven by the need to increase the Bank's capital position in view of the following directions set forth in BSP Circular No. 781:

- significant increase in the industry's regulatory capital requirements in view of the early implementation of Basel III minimum capital requirements effective 2014;
- inclusion of loss absorbency feature in the issuance of additional Tier 2 capital instruments; and,
- ineligibility of the Bank's ₱3.0 billion subordinated notes as part of Tier 2 capital.

The change in intention and eventual disposal of the said HTM investments portfolio in response to the significant increase in regulatory capital requirements is one of the conditions permitted under PAS 39, *Financial Instruments: Recognition and Measurement* and thus is exempt from the tainting rule.

As of March 2013, the total carrying value of HTM investments classified to AFS investments amounted to ₱13.3 billion, with unrealized gains of ₱4.1 billion deferred under 'Net unrealized gain on AFS investments' under OCI.

Subsequent to the reclassification, the Bank sold a substantial portion of the said portfolio resulting in realized trading gain of ₱4.0 billion in 2013.

As of December 31, 2013, HTM investments reclassified to AFS investments have a carrying value and market value of ₱700.0 million and ₱797.2 million, respectively.

9. Loans and Receivables

This account consists of:

	2013	2012
Receivables from customers		
Consumption loans	**₱41,146,099,807**	₱36,215,778,334
Real estate loans	**28,775,771,200**	22,653,701,646
Commercial loans	**13,434,702,204**	12,445,083,240
Personal loans	**4,275,070,444**	5,549,553,963
	87,631,643,655	76,864,117,183
Less unearned discounts	**2,013,976,038**	4,613,560,459
	85,617,667,617	72,250,556,724
Other receivables		
Accrued interest receivable (Note 29)	**946,819,930**	1,008,972,301
Accounts receivable (Note 29)	**522,941,011**	516,881,444
Unquoted debt instruments	**295,610,552**	1,259,744,265
Sales contract receivables	**286,874,761**	378,715,272
Bills purchased (Note 19)	**49,669,238**	61,578,434
	87,719,583,109	75,476,448,440
Less allowance for credit losses (Note 15)	**4,802,462,115**	5,063,866,121
	₱82,917,120,994	₱70,412,582,319

Personal loans comprise deposit collateral loans, employee salary and consumer loan products such as Money card, multi-purpose loan and flexi-loan.

Unquoted debt instruments represent investments in convertible notes and private bonds. The convertible notes amounting to ₱95.6 million are provided with 100.00% allowance for credit losses as of December 31, 2013 and 2012.

As of December 31, 2013, 2012 and 2011, 29.52%, 24.59%and 25.18%, respectively, of the total receivables from customers are subject to periodic interest repricing. Remaining receivables earn average annual fixed interest rates of 12.95%, 12.78% and 12.96% in 2013, 2012 and 2011, respectively.

On July 1, 2012, the Bank implemented enhancements to systems and loan documents in compliance with BSP Circular No. 730 requiring banks to charge interest based on the outstanding balance at the start of the interest period and to indicate the effective interest rate and charges related to the loan in all documents and marketing materials. The implementation of the requirements of the BSP Circular resulted in the decrease in the Bank's unearned discounts from ₱4.6 billion in 2012 to ₱2.0 billion in 2013.

As of December 31, 2013, 2012 and 2011, receivable from customers earned interest income at an effective interest rate ranging from 9.70% to 10.95%, 9.94% to 11.89% and 10.53% to 26.86%, respectively.

Interest income on loans and receivables consists of:

	2013	2012	2011
Receivables from customers			
Consumption loans	**₱3,784,845,069**	₱3,056,755,626	₱2,696,080,211
Real estate loans	**2,237,204,178**	1,960,362,055	1,766,540,597
Personal loans	**1,063,057,436**	1,023,481,594	982,080,383
Commercial loans	**904,187,371**	942,512,827	945,005,499
Other receivables			
Unquoted debt instruments	**105,929,392**	60,751,965	32,668,750
Sales contract receivables	**27,212,396**	38,028,857	50,485,179
	₱8,122,435,842	₱7,081,892,924	₱6,472,860,619

Interest income accreted on impaired loans and receivables classified under real estate loans and commercial loans amounted to ₱73.3 million, ₱89.1 million and ₱82.4 million in 2013, 2012 and 2011, respectively.

Interest income from restructured loans amounted to ₱61.8 million, ₱76.8 million and ₱87.1 million in 2013, 2012 and 2011, respectively.

Included in the loan portfolio are receivables purchased from a third party amounting to ₱117.0 million and ₱155.1 million as of December 31, 2013 and 2012, respectively.

BSP Reporting
The breakdown of loans and receivables from customers (gross of unearned discounts and allowance for credit losses) as to secured and unsecured and as to type of security follows:

	2013	%	2012	%
Secured by:				
Chattel	**₱41,146,099,808**	**46.95**	₱36,215,778,334	47.12
Real estate	**28,383,931,714**	**32.39**	23,585,975,405	30.69
Deposit hold-out	**438,595,244**	**0.50**	547,854,897	0.71
Others	**420,249,261**	**0.48**	489,841,624	0.64
	70,388,876,027	**80.32**	60,839,450,260	79.15
Unsecured	**17,242,767,628**	**19.68**	16,024,666,923	20.85
	₱87,631,643,655	**100.00**	₱76,864,117,183	100.00

Details of NPLs follow:

	2013	2012
Secured	**₱2,698,250,112**	₱2,451,434,743
Unsecured	**957,170,661**	2,033,621,628
	₱3,655,420,773	₱4,485,056,371

Generally, NPLs refer to loans and receivables whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of loans and receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of loans and receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total receivable balance.

Loans and receivables are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Receivables are not reclassified as performing until interest and principal payments are brought to current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured. Further, as provided for by BSP Circular No. 772 which is effective starting January 1, 2013, the nonperforming loans to be disclosed shall be presented net of unearned interest and discounts.

Restructured loans and receivables, which do not meet the requirements to be treated as performing receivables, shall also be considered as NPLs.

Current banking regulations allow banks with no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification loans classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit and impairment losses, provided that interest on said receivables shall not be accrued.

The NPLs of the Bank not fully covered by allowance for credit losses follow:

	2013	2012
Total NPLs	**₱3,655,420,773**	₱4,485,056,371
NPLs fully covered by allowance for credit losses	**1,056,313,169**	2,478,739,555
	₱2,599,107,604	₱2,006,316,816

Restructured loans as of December 31, 2013 and 2012 amounted to ₱577.9 million and ₱753.4 million, respectively. The Bank's loan portfolio includes non-risk loans as defined under BSP regulations totaling ₱15.0 billion and ₱5.3 billion as of December 31, 2013 and 2012, respectively.

Loan concentration as to economic activity follows (gross of unearned discounts and allowance for credit losses):

	2013	%	2012	%
Real estate	**₱27,042,971,337**	**30.86**	₱24,288,661,965	31.60
Other community, social and personal activities	**22,517,602,849**	**25.70**	18,434,613,322	23.98
Wholesale and retail trade	**17,640,958,414**	**20.13**	17,718,170,061	23.05
Public utilities	**6,432,450,382**	**7.34**	5,719,824,760	7.44
Banks, insurance and other financial institutions	**5,129,202,091**	**5.85**	3,543,281,031	4.61
Manufacturing	**1,612,275,962**	**1.84**	1,355,008,092	1.76
Services	**1,105,061,636**	**1.26**	754,865,033	0.98
Mining and quarrying	**42,834,562**	**0.05**	17,530,740	0.02
Agriculture	**12,540,799**	**0.01**	66,541,925	0.09
Others	**6,095,745,623**	**6.96**	4,965,620,254	6.46
	₱87,631,643,655	**100.00**	₱76,864,117,183	100.00

Others relates to economic activities construction, health and social work, public administration and defense, extra-territorial organization and bodies, and education and fishing.

Thrift banks are not covered by the loan concentration limit of 30.00% prescribed by the BSP.

10. **Investments in an Associate and a Joint Venture**

The composition of this account follows:

	2013	2012 (As restated - Note 2)
Investment in an associate	**₱681,396,600**	₱572,504,682
Investment in a joint venture	**664,745,812**	664,677,076
	₱1,346,142,412	₱1,237,181,758

<u>Investment in an Associate</u>
The Banks owns 2,500,000 shares of TFSPC representing 25.00% ownership. TFSPC is involved in financing and leasing services for customers of Toyota vehicles, as well as inventory stock financing for Toyota dealers.

The following table illustrates the summarized financial information of TFSPC:

	2013	2012
Current assets	**₱10,766,542,100**	₱8,443,532,819
Non-current assets	**18,809,486,168**	13,917,886,195
Current liabilities	**11,005,313,543**	12,498,335,964
Non-current liabilities	**15,845,128,328**	7,463,381,307
Net assets	**2,725,586,397**	2,399,701,743
Revenues	**1,931,061,460**	1,751,719,347
Costs and expenses	**1,494,253,157**	1,554,698,365
Net income for the year	**436,808,303**	197,020,982

Movement in this account follows:

	2013	2012
Acquisition cost	**₱270,546,789**	₱270,546,789
Accumulated equity in net income		
Balance at beginning of year	**301,957,893**	252,702,647
Share in net income	**109,202,076**	49,255,246
Balance at end of year	**411,159,969**	301,957,893
Share in cash flow hedge reserve	**(335,158)**	–
Share in unrealized gain on available-for-sale investments	**25,000**	–
	410,849,811	301,957,893
	₱681,396,600	₱572,504,682

During the year, TFSPC entered into a cross-currency interest rate swap agreement to hedge the foreign currency and interest rate risks on its foreign loan. As of December 31, 2013, the effective fair value changes on the swaps that were recognized as part of OCI under 'Equity in Cash Flow Hedge Reserve of an Associate' amounted to an unrealized loss of ₱1.34 million. No ineffectiveness was recognized during the fiscal year 2013. The Bank has recognized its equity share on the said reserve.

Investment in a Joint Venture

The Bank owns 8,000,000 shares of SMFC representing 40% ownership. SMFC is engaged in the business of lending or leasing to retail customers for their purchase of motorcycles.

The following table illustrates the summarized financial information of SMFC:

	2013	2012 (As restated - Note 2)
Current assets	**₱1,565,184,683**	₱1,545,130,305
Non-current assets	**174,111,665**	185,444,769
Current liabilities	**67,298,173**	66,714,309
Non-current liabilities	**9,968,173**	6,670,091
Net assets	**1,662,030,002**	1,657,190,674
Revenues	**329,252,972**	299,744,744
Costs and expenses	**328,335,262**	422,928,667
Net income (loss) for the year	**917,710**	(123,183,923)

Movement in this account follows:

	2013	2012 (As restated - Note 2)
Acquisition cost	**₱800,000,000**	₱800,000,000
Accumulated equity in net income (losses)		
Balance at beginning of year	**(135,322,924)**	(85,104,035)
Share in net income (loss)	**367,084**	(49,273,569)
Balance at end of year	**(134,955,840)**	(134,377,604)
Share in unrealized loss on remeasurement of retirement liability	**(298,348)**	(181,342)
Share in effect of retrospective application of PAS 19 (Revised)	**–**	(763,978)
	(135,254,188)	(135,322,924)
	₱664,745,812	₱664,677,076

The Bank has no share in any contingent liabilities or capital commitments of TFSPC and SMFC as of December 31, 2013 and 2012.

11. Property and Equipment

The composition of and movements in this account follow:

	2013				
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost					
Balance at beginning of year	**₱255,730,364**	**₱1,681,456,739**	**₱1,846,292,521**	**₱513,341,242**	**₱4,296,820,866**
Acquisitions	**10,638,901**	**79,841,998**	**166,661,999**	**84,248,035**	**341,390,933**
Disposals	**–**	**(237,755,694)**	**(56,727,255)**	**–**	**(294,482,949)**
Reclassifications/transfer		**213,462,651**	**–**	**–**	**213,462,651**
Balance at end of year	**266,369,265**	**1,737,005,694**	**1,956,227,265**	**597,589,277**	**4,557,191,501**
Accumulated Depreciation					
Balance at beginning of year	**–**	**290,981,189**	**1,307,790,253**	**285,712,034**	**1,884,483,476**
Depreciation	**–**	**36,557,566**	**221,150,065**	**72,604,618**	**330,312,249**
Disposals	**–**	**(165,781,327)**	**(26,316,183)**	**–**	**(192,097,510)**
Reclassifications/transfer	**–**	**144,712,882**	**–**	**–**	**144,712,882**
Balance at end of year	**–**	**306,470,310**	**1,502,624,135**	**358,316,652**	**2,167,411,097**
Net Book Value	**₱266,369,265**	**₱1,430,535,384**	**₱453,603,130**	**₱239,272,625**	**₱2,389,780,404**

	2012				
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱225,877,870	₱1,617,049,093	₱1,708,381,439	₱413,719,109	₱3,965,027,511
Acquisitions	29,852,494	64,407,646	198,636,527	99,622,133	392,518,800
Disposals	–	–	(60,725,445)	–	(60,725,445)
Balance at end of year	255,730,364	1,681,456,739	1,846,292,521	513,341,242	4,296,820,866
Accumulated Depreciation					
Balance at beginning of year	–	262,430,332	1,098,347,301	222,097,760	1,582,875,393
Depreciation	–	28,550,857	241,797,066	63,614,274	333,962,197
Disposals	–	–	(32,354,114)	–	(32,354,114)
Balance at end of year	–	290,981,189	1,307,790,253	285,712,034	1,884,483,476
Net Book Value	₱255,730,364	₱1,390,475,550	₱538,502,268	₱227,629,208	₱2,412,337,390

In 2013, the Bank reclassified units from previously leased out properties to Bank premises amounting to ₱213.5 million.

Gain on sale of property and equipment amounted to ₱138.5 million, ₱5.8 million and ₱3.3 million in 2013, 2012 and 2011, respectively.

The details of depreciation under the statements of income follow:

	2013	2012	2011
Property and equipment	**₱330,312,249**	₱333,962,197	₱296,708,994
Investment properties (Note 12)	**60,291,941**	64,715,180	64,987,625
Chattel mortgage properties (Note 14)	**92,656,330**	91,093,519	66,381,668
	₱483,260,520	₱489,770,896	₱428,078,287

As of December 31, 2013 and 2012, property and equipment of the Bank with gross carrying amounts of ₱721.3 million and ₱754.0 million, respectively, are fully depreciated but are still being used.

12. Investment Properties

The composition of and movements in this account follow:

	2013		
	Land	**Building Improvements**	**Total**
Cost			
Balance at beginning of year	**₱1,508,037,942**	**₱1,751,564,150**	**₱3,259,602,092**
Additions (Note 32)	**270,272,251**	**481,977,191**	**752,249,442**
Disposals	**(332,155,201)**	**(305,135,951)**	**(637,291,152)**
Reclassification	**–**	**(213,462,651)**	**(213,462,651)**
Balance at end of year	**1,446,154,992**	**1,714,942,739**	**3,161,097,731**
Accumulated Depreciation			
Balance at beginning of year	**–**	**395,166,942**	**395,166,942**
Depreciation (Note 11)	**–**	**60,291,941**	**60,291,941**
Disposals	**–**	**(45,802,812)**	**(45,802,812)**
Reclassification	**–**	**(144,712,882)**	**(144,712,882)**
Balance at end of year	**–**	**264,943,189**	**264,943,189**
Allowance for Impairment Losses			
Balance at beginning of year	**158,471,002**	**83,045,276**	**241,516,278**
Provisions for the year (Note 15)	**22,308,169**	**45,000,000**	**67,308,169**
Disposals	**–**	**(2,078,216)**	**(2,078,216)**
Balance at end of year	**180,779,171**	**125,967,060**	**306,746,231**
Net Book Value	**₱1,265,375,821**	**₱1,324,032,490**	**₱2,589,408,311**

	2012		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,679,990,492	₱1,740,717,671	₱3,420,708,163
Additions (Note 32)	192,238,853	299,159,777	491,398,630
Disposals	(364,191,403)	(288,313,298)	(652,504,701)
Balance at end of year	1,508,037,942	1,751,564,150	3,259,602,092
Accumulated Depreciation			
Balance at beginning of year	–	372,695,812	372,695,812
Depreciation (Note 11)	–	64,715,180	64,715,180
Disposals	–	(42,244,050)	(42,244,050)
Balance at end of year	–	395,166,942	395,166,942
Allowance for Impairment Losses			
Balance at beginning of year	217,342,500	28,410,417	245,752,917
Provisions for the year (Note 15)	38,695,339	58,062,263	96,757,602
Disposals	(97,566,837)	(3,427,404)	(100,994,241)
Balance at end of year	158,471,002	83,045,276	241,516,278
Net Book Value	₱1,349,566,940	₱1,273,351,932	₱2,622,918,872

The details of the net book value of investment properties follow:

	2013	2012
Real estate properties acquired in settlement of loans and receivables	**₱2,467,913,918**	₱2,426,330,294
Bank premises leased to third parties and held for capital appreciation	**121,494,393**	196,588,578
	₱2,589,408,311	₱2,622,918,872

As of December 31, 2013 and 2012, the aggregate fair value of investment properties amounted to ₱3.0 billion and ₱2.9 billion, respectively.

Gain on foreclosure of investment properties amounted to ₱243.0 million, ₱155.1 million and ₱208.8 million in 2013, 2012 and 2011, respectively. The Bank realized gain on sale of investment properties amounting to ₱26.8 million in 2013 and a loss on sale amounting to ₱15.1 million and ₱22.1 million in 2012 and 2011, respectively.

Rental income on investment properties included in miscellaneous income amounted to ₱45.0 million, ₱63.5 million and ₱66.4 million in 2013, 2012 and 2011, respectively (Notes 23 and 25).

Operating expenses incurred in maintaining investment properties (included under miscellaneous expense amounted) to ₱9.8 million, ₱10.1 million and ₱10.0 million in 2013, 2012 and 2011, respectively.

13. **Goodwill and Intangible Assets**

This account consists of:

	2013	2012
Goodwill	**₱53,558,338**	₱53,558,338
Intangible assets		
Software costs	**207,949,979**	147,059,763
Branch licenses	**31,323,737**	31,123,737
	239,273,716	178,183,500
	₱292,832,054	₱231,741,838

The movements in intangible assets follow:

	2013		
	Software Costs	**Branch Licenses**	**Total**
Balance at beginning of year	**₱147,059,763**	**₱31,123,737**	**₱178,183,500**
Additions	**129,344,501**	**200,000**	**129,544,501**
Amortization	**(68,454,285)**	–	**(68,454,285)**
Balance at end of year	**₱207,949,979**	**₱31,323,737**	**₱239,273,716**

	2012		
	Software Costs	Branch Licenses	Total
Balance at beginning of year	₱174,097,353	₱27,523,737	₱201,621,090
Additions	30,200,631	3,600,000	33,800,631
Amortization	(57,238,221)	–	(57,238,221)
Balance at end of year	₱147,059,763	₱31,123,737	₱178,183,500

Amortization of software costs in 2011 amounted to ₱53.1 million.

14. **Other Assets**

This account consists of:

	2013	2012
Chattel mortgage properties - net	**₱503,637,099**	₱434,426,293
Prepayments	**113,065,859**	129,955,436
Security deposits (Note 29)	**97,034,227**	95,618,642
Creditable withholding tax	**27,666,752**	10,136,714
Documentary stamps on hand	**27,281,589**	22,306,737
Sundry debits	**17,517,652**	43,600,933
Stationeries and supplies on hand	**16,775,678**	18,806,637
RCOCI	**14,270,316**	17,644,237
Deferred charges	**12,136,991**	9,497,453
Inter-office float items	**3,581,082**	12,825,657
Others	**3,335,672**	3,412,535
	₱836,302,917	₱798,231,274

Prepayments represent prepaid insurance, prepaid rent, and other prepaid expenses.

The movements in chattel mortgage properties - net follow:

	2013	2012
Cost		
Balance at beginning of year	**₱503,221,482**	₱443,153,670
Additions (Note 32)	**1,025,399,887**	840,698,632
Disposals	**(938,889,058)**	(780,630,820)
Balance at the end of year	**589,732,311**	503,221,482
Accumulated Depreciation		
Balance at beginning of year	**68,179,099**	60,695,661
Depreciation (Note 11)	**92,656,330**	91,093,519
Disposals	**(75,356,307)**	(83,610,081)
Balance at the end of year	**85,479,122**	68,179,099
Allowance for Impairment Losses		
Balance at beginning and end of year	**616,090**	616,090
Net Book Value	**₱503,637,099**	₱434,426,293

Loss on foreclosure of chattel mortgage properties amounted to ₱166.0 million, ₱138.1 million and ₱105.9 million in 2013, 2012 and 2011, respectively. The Bank realized gain on sale of chattel mortgage properties in 2013 amounting to ₱35.1 million, a loss on sale in 2012 amounting to ₱21.5 million and a gain on sale amounting to ₱47.2 million in 2011.

15. Allowance for Credit and Impairment Losses

Details of the provision for credit and impairment losses charged to current operations follow:

	2013	2012
Loans and receivables	**₱2,072,253,792**	₱1,047,963,260
Investment properties (Note 12)	**67,308,169**	96,757,602
	₱2,139,561,961	₱1,144,720,862

Changes in the allowance for credit losses on loans and receivables follow (in thousands):

	2013									
	Receivables from Customers				Other Receivables					
	Consumption	Real Estate	Commercial	Personal	Accrued Interest Receivable	Accounts Receivable	Sales Contract Receivable	Unquoted Debt Investments	Bills Purchased	Total
Balance at beginning of year	₱715,116	₱269,045	₱1,212,053	₱1,930,901	₱347,726	₱465,334	₱26,777	₱95,611	₱1,303	₱5,063,866
Provisions for the year charged against profit or loss	852,652	492,818	54,599	430,152	237,043	48	2,942	2,000	–	2,072,254
Reversal of allowance	–	–	–	–	(269,017)	–	–	–	–	(269,017)
Amount written off	(618,328)	–	–	(1,446,313)	–	–	–	–	–	(2,064,641)
Reclassification	250,000	–	(250,000)	–	–	–	–	–	–	–
Balance at end of year	₱1,199,440	₱761,863	₱1,016,652	₱914,740	₱315,752	₱465,382	₱29,719	₱97,611	₱1,303	₱4,802,462
Individual impairment	₱617,970	₱708,027	₱539,193	₱78,531	₱158,873	₱180,568	₱18,313	₱95,611	₱–	₱2,397,086
Collective impairment	581,470	53,836	477,459	836,209	156,879	284,814	11,406	2,000	1,303	2,405,376
	₱1,199,440	₱761,863	₱1,016,652	₱914,740	₱315,752	₱465,382	₱29,719	₱97,611	₱1,303	₱4,802,462
Gross amount of loans individually impaired, before deducting any individual impairment allowance	₱617,970	₱1,028,991	₱785,505	₱78,531	₱305,749	₱180,568	₱18,313	₱95,611	₱–	₱3,111,238

	2012									
	Receivables from Customers				Other Receivables					
	Consumption	Real Estate	Commercial	Personal	Accrued Interest Receivable	Accounts Receivable	Sales Contract Receivable	Unquoted Debt Investments	Bills Purchased	Total
Balance at beginning of year	₱542,173	₱178,239	₱962,695	₱1,996,440	₱293,475	₱464,733	₱23,899	₱95,611	₱1,303	₱4,558,568
Provisions for the year charged against profit or loss	172,943	90,806	249,358	406,841	124,536	601	2,878	–	–	1,047,963
Reversal of allowance	–	–	–	–	(70,285)	–	–	–	–	(70,285)
Amount written off	–	–	–	(472,380)	–	–	–	–	–	(472,380)
Balance at end of year	₱715,116	₱269,045	₱1,212,053	₱1,930,901	₱347,726	₱465,334	₱26,777	₱95,611	₱1,303	₱5,063,866
Individual impairment	₱–	₱211,487	₱728,675	₱–	₱66,620	₱178,680	₱18,313	₱95,611	₱–	₱1,299,386
Collective impairment	715,116	57,558	483,378	1,930,901	281,106	286,654	8,464	–	1,303	3,764,480
	₱715,116	₱269,045	₱1,212,053	₱1,930,901	₱347,726	₱465,334	₱26,777	₱95,611	₱1,303	₱5,063,866
Gross amount of loans individually impaired, before deducting any individual impairment allowance	₱–	₱467,625	₱872,818	₱–	₱361,293	₱178,680	₱18,313	₱95,611	₱–	₱1,994,340

16. **Deposit Liabilities**

BSP Circular 753, which took effect on April 6, 2012, promulgated the unification of the statutory/legal and liquidity reserve requirement on non-FCDU deposit liabilities from 8.00% to 6.00%. Formerly, there was a separate reserve requirement percentage for liquidity and statutory reserves equivalent to 6.00% and 2.00%, respectively. Also, with the new regulations, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements. This was tantamount to the exclusion of government securities and cash in vault as eligible reserves. As of December 31, 2013 and 2012, the Bank is in compliance with such regulations.

As of December 31, 2013 and 2012, Due from BSP amounting to ₱7.6 billion and ₱5.1 billion, respectively, were set aside as reserves for deposit liabilities, as reported to the BSP.

Interest expense on deposit liabilities consists of:

	2013	2012	2011
Time	**₱2,013,767,393**	₱2,789,481,681	₱2,997,224,597
Demand (Note 29)	**74,094,382**	111,147,863	177,165,549
Savings	**69,823,836**	60,901,472	55,415,849
	₱2,157,685,611	₱2,961,531,016	₱3,229,805,995

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.00% to 6.00% in 2013 and 0.00% to 7.00% in 2012 and 2011, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 5.5% in 2013, 0.25 to 6.00% in 2012 and 0.5% to 8.75% in 2011. Effective interest rate on deposit liabilities as of December 31, 2013, 2012, and 2011 ranges from 1.78% to 2.93%, 2.94% to 3.46%, and 3.19% to 6.92%, respectively.

17. **Subordinated Notes**

On February 20, 2012, the Bank issued ₱3.0 billion in Unsecured Subordinated Notes with an interest rate of 5.75% due 2022 (the Notes). The BSP approved the issuance and sale of the Notes on December 29, 2011.

Among the significant terms and conditions of the issuance of the Notes are:

a. Issue price at 100.00% of the face value of each Note;
b. The Notes bear interest at the rate of 5.75% per annum from and including February 20, 2012 but excluding February 20, 2022. The interest shall be payable quarterly in arrears at the end of each interest period on every 20th of May, August, November and February of each year, commencing on February 20, 2012 until the maturity date;
c. The Notes will constitute direct, unconditional and unsecured obligations of the Bank. The Notes will be subordinated in right of payment of principal and interest to all depositors and other creditors of the Issuer and will rank paripassu and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of the Bank, including holders of preferred shares, if any;
d. Subject to satisfaction of certain regulatory approval requirements, the Bank may redeem the Notes in whole and not only in part at a redemption price equal to 100.00% of the principal amount together with the accrued and unpaid interest upon at least thirty (30) days notice prior

to call option date, which is the Banking Day immediately following the fifth anniversary of the issue date of the Notes or February 21, 2017.

As of December 31, 2013, the Bank is in compliance with the terms and conditions upon which the subordinated notes have been issued.

The movements in subordinated notes payable follow:

	2013	2012
Amortized cost	**₱2,969,797,342**	₱2,967,774,300
Amortization of debt issuance costs	**2,568,682**	2,023,042
	₱2,972,366,024	₱2,969,797,342

18. **Accrued Taxes, Interest and Other Expenses**

This account consists of:

	2013	2012
Accrued interest payable	**₱169,518,898**	₱185,177,987
Accrued other taxes, licenses and other payables	**130,144,785**	63,724,110
Accrued other expenses payable (Note 29)	**800,067,311**	805,265,138
	₱1,099,730,994	₱1,054,167,235

Accrued other expenses payable consist of:

	2013	2012
Fringe benefits	**₱318,441,988**	₱305,916,522
Lease payable	**127,786,733**	136,201,285
Insurance	**107,787,604**	98,228,293
Information technology	**71,882,801**	67,599,410
Advertising	**65,449,497**	98,050,242
Litigation	**33,811,079**	32,914,929
Securities, messengerial and janitorial	**25,085,591**	21,537,340
Professional and consultancy fees	**9,329,269**	16,125,758
Miscellaneous	**40,492,749**	28,691,359
	₱800,067,311	₱805,265,138

Fringe benefits include salaries and wages as well as medical, dental and hospitalization benefits.

Miscellaneous include accruals for membership fees and dues, director’s fees, utilities and maintenance and other expenses.

19. **Other Liabilities**

This account consists of:

	2013	2012 (As restated - Note 2)
Accounts payable (Note 29)	**₱1,067,036,467**	₱864,908,017
Net retirement liability (Note 24)	**429,486,585**	257,055,651
Other credits	**297,084,991**	154,747,270
Sundry credits	**74,504,828**	48,310,639
Bills purchased - contra (Note 9)	**49,669,238**	61,578,434
Withholding taxes payable	**46,107,846**	72,767,194
Due to the Treasurer of the Philippines	**10,859,272**	7,002,855
SSS, Medicare, ECP and HDMF premium payable	**7,065,612**	6,437,114
Dividends payable (Note 21)	**2,330,667**	176,673,172
Miscellaneous (Note 29)	**77,403,267**	79,365,388
	₱2,061,548,773	₱1,728,845,734

Accounts payable includes payable to suppliers and service providers, and loan payments and other charges received from customers in advance.

Other credits represent long-outstanding unclaimed balances from inactive and dormant accounts.

Miscellaneous liabilities include incentives for housing loan customers that are compliant with the payment terms amounting to ₱54.7 million, ₱51.3 million and ₱46.2 million as of December 31, 2013, 2012 and 2011, respectively.

20. **Maturity Analysis of Assets and Liabilities**

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the statement of condition dates (in thousands):

	December 31					
	2013			2012 (As restated - Note 2)		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱3,157,499**	**₱–**	**₱3,157,499**	₱2,811,064	₱–	₱2,811,064
Due from BSP	**7,401,657**	**–**	**7,401,657**	5,514,833	–	5,514,833
Due from other banks	**8,491,341**	**–**	**8,491,341**	6,002,439	–	6,002,439
Interbank loans receivable and SPURA	**14,527,000**	**–**	**14,527,000**	6,100,000	–	6,100,000
FVPL investments	**184,607**	**–**	**184,607**	120,748	–	120,748
AFS investments - gross (Note 8)	**164,184**	**5,530,890**	**5,695,074**	547,785	2,807,416	3,355,201
HTM investments	**–**	**–**	**–**	276,703	13,286,223	13,562,926
Loans and receivables - gross (Note 9)	**12,542,158**	**77,191,401**	**89,733,559**	12,998,468	67,091,540	80,090,008
Other assets - gross* (Note 14)	**50,198**	**61,397**	**111,595**	47,821	65,840	113,661
	46,518,644	**82,783,688**	**129,302,332**	34,419,861	83,251,019	117,670,880

(Forward)

	December 31					
	2013			2012 (As restated - Note 2)		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Nonfinancial Assets						
Investments in an associate and a joint venture	**₱–**	**₱1,346,142**	**₱1,346,142**	₱–	₱1,237,182	₱1,237,182
Property and equipment - gross (Note 11)	**–**	**4,198,875**	**4,198,875**	–	4,296,821	4,296,821
Investment properties - gross (Note 12)	**–**	**3,161,098**	**3,161,098**	–	3,259,602	3,259,602
Deferred tax assets	**–**	**243,119**	**243,119**	–	1,024,771	1,024,771
Other assets - gross** (Note 14)	**710,186**	**307,972**	**1,018,158**	672,721	244,207	916,928
	710,186	**9,257,206**	**9,967,392**	672,721	10,062,583	10,735,304
Less: Allowance for credit and impairment losses			**5,155,835**			5,352,010
Accumulated depreciation (Notes 11 and 12)			**2,074,038**			2,279,650
Unearned discounts (Note 9)			**2,013,976**			4,613,560
			9,243,849			12,245,220
	₱47,228,830	**₱92,040,894**	**₱130,025,875**	₱35,092,582	₱93,313,602	₱116,160,964

* Others assets under financial assets comprise petty cash fund, shortages, RCOCI and security deposits.

** Other assets under nonfinancial assets comprise inter-office float items, prepaid expenses, stationery and supplies on hand, sundry debits, documentary stamps on hand, deferred charges, postages stamps, chattel mortgage properties, goodwill and intangible assets.

	December 31					
	2013			2012 (As restated - Note 2)		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities	**₱90,404,767**	**₱16,113,737**	**₱106,518,504**	₱77,891,429	₱16,732,858	₱94,624,287
Subordinated notes	**–**	**2,972,366**	**2,972,366**	–	2,969,797	2,969,797
Treasurer's, cashier's and manager's checks	**1,110,517**	**–**	**1,110,517**	756,629	–	756,629
Accrued other expenses payable	**870,651**	**–**	**870,651**	805,265	–	805,265
Accrued interest payable	**169,519**	**–**	**169,519**	185,178	–	185,178
Accrued income tax payable	**132**	**–**	**132**	–	–	–
Other liabilities						
Accounts payable	**1,067,036**	**–**	**1,067,036**	864,908	–	864,908
Other credits	**–**	**297,085**	**297,085**	–	154,747	154,747
Bills purchased - contra	**49,669**	**–**	**49,669**	61,578	–	61,578
Dividends payable	**2,331**	**–**	**2,331**	176,673	–	176,673
Due to Treasurer of the Philippines	**–**	**10,859**	**10,859**	–	7,003	7,003
Deposits for keys	**902**	**–**	**902**	926	–	926
Others*	**2,061**	**–**	**2,061**	1,993	–	1,993
	93,677,585	**19,394,047**	**113,071,632**	80,744,579	19,864,405	100,608,984
Nonfinancial Liabilities						
Accrued other taxes and licenses payable	**59,561**	**–**	**59,561**	63,724	–	63,724
Other liabilities**	**557,779**	**73,827**	**631,606**	345,622	115,396	461,018
	617,340	**73,827**	**691,167**	409,346	115,396	524,742
	₱94,294,925	**₱19,467,874**	**₱113,762,799**	₱81,153,925	₱19,979,801	₱101,133,726

* Others under financial liabilities comprise payment orders payable and overages.

** Other liabilities under nonfinancial liabilities comprise advance rentals on bank premises, sundry credits, withholding taxes, SSS, Medicare, ECP & HDMF premium payable, net retirement liability, and miscellaneous liabilities.

21. **Equity**

Issued Capital
The Bank's capital stock consists of:

	2013		2012	
	Shares	**Amount**	Shares	Amount
Authorized common stock - ₱10 par value	425,000,000	₱4,250,000,000	425,000,000	₱4,250,000,000
Issued and outstanding				
Balance at beginning and end of year (Note 28)	240,252,491	₱2,402,524,910	240,252,491	₱2,402,524,910

The Bank became listed in the Philippine Stock Exchange (PSE) on October 10, 1994.

Subsequently, the SEC approved the increase in the capital stock of the Bank. The summarized information on the Bank's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type	Authorized Shares	Par Value
August 16, 1995	Common	300,000,000	₱10
October 8, 1997	Common	425,000,000	₱10

As of December 31, 2013 and 2012, the total number of stockholders is 1,581 and 1,625, respectively.

Dividends Paid and Proposed
Details of the Bank's dividend distributions as approved by the Bank's BOD and the BSP follow:

	Cash Dividends				
Date of declaration	Per share	Total amount	Date of BSP approval	Record date	Payment date
January 20, 2011	0.15	36,037,874	February 23, 2011	March 18, 2011	April 4, 2011
April 4, 2011	0.15	36,037,874	May 13, 2011	August 4, 2011	August 19, 2011
August 1, 2011	0.15	36,037,874	August 16, 2011	September 8, 2011	September 23, 2011
October 27, 2011	0.15	36,037,874	November 23, 2011	December 20, 2011	January 5, 2012
January 24, 2012	0.15	36,037,874	February 09, 2012	March 8, 2012	March 23, 2012
April 27, 2012	0.75	180,189,368	May 15, 2012	June 7, 2012	June 25, 2012
July 23, 2012	0.75	180,189,368	August 13, 2012	September 11, 2012	September 26, 2012
October 23, 2012	0.75	180,189,368	November 21, 2012	December 27, 2012	January 14, 2013
January 22, 2013	0.75	180,189,368	February 8, 2013	March 5, 2013	March 20, 2013
April 19, 2013	0.75	180,189,368	May 28, 2013	June 18, 2013	July 3, 2013
July 18, 2013	0.75	180,189,368	August 8, 2013	September 4, 2013	September 19, 2013
October 22, 2013	0.75	180,189,368	November 12, 2013	November 29, 2013	December 16, 2013
October 22, 2013	3.00	720,757,473	November 12, 2013	November 29, 2013	December 16, 2013

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

In compliance with BSP regulations, 10.00% of the Bank's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Bank's authorized capital stock.

A portion of the surplus corresponding to the accumulated net earnings of an associate and joint venture which amounted to ₱411.1 million in 2013 and ₱302.0 million in 2012 is not available for dividend declaration (Note 10). The accumulated equity in net income of investment in associate becomes available for dividend declaration upon receipt of cash dividends from the investees.

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements, as mandated by the BSP, and that the Bank maintains healthy capital ratios in order to support its business and maximize returns for its shareholders. The Bank considers its paid in capital and surplus as its capital.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders or issue capital securities. The major activities in this area include the following:

- On March 2, 2005, the Bank's BOD approved an amendment to the Bank's Dividend Policy which provides for an annual regular cash dividend of 6.00% of the par value of the total capital stock payable quarterly at the rate of 1.50% or ₱0.15 per share payable not later than March 31, June 30, September 30 and December 31 of each year.
- On February 29, 2012, the Bank's BOD approved a further amendment to the Bank's Dividend Policy to provide for an annual regular cash dividend of 30.00% of the par value of the total capital stock, payable quarterly at the rate of 7.50% or ₱0.75 per share payable not later than March 31, June 30, September 30 and December 31 of each year.
- The Bank issued additional common shares for its qualified stockholders in 2008 and 2006 through stock rights offerings that raised ₱2.0 billion and ₱750.0 million in capital, respectively.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis and consolidated basis. Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

The CAR of the Bank as of December 31, as reported to the BSP, based on the BSP Circular 538 are shown in the table below.

	2013	2012
Tier 1 capital	**₱15,292**	₱13,840
Tier 2 capital	**3,799**	3,651
Gross qualifying capital	**19,091**	17,491
Less required deductions	**2,072**	2,758
Total qualifying capital	**₱17,019**	₱14,733
Risk weighted assets	**₱100,592**	₱85,949
Tier 1 capital adequacy ratio	**13.81%**	13.63%
Capital adequacy ratio	**16.92%**	17.14%

Regulatory qualifying capital consists of Tier 1 (core) capital, which comprises capital stock, surplus, surplus reserves, and cumulative translation adjustment. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which is comprised of the Bank's general loan loss provision and unsecured subordinated debt. Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to, outstanding unsecured credit accommodations both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates (net of specific provisions), deferred income tax (net of allowance for impairment, if any) and goodwill. The Bank's investments in the equity securities of an unconsolidated associate and joint venture were deducted 50.00% from Tier 1 and 50.00% from Tier 2.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures.

The Bank has complied with all externally imposed capital requirements throughout the year.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the MBTC Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory directives. The Bank follows the Group's ICAAP framework and submits the result of its assessment to the parent company. The BSP requires submission of an ICAAP document every January 31 of each year. The Bank has complied with this requirement.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements,* which states the implementing guidelines on the revised risk-based capital adequacy framework, particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos.709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital. The Bank's unsecured subordinated debt will still be eligible as Lower Tier 2 capital until December 31, 2015.

The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an outgoing basis.

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

	2013	2012 (As restated - Note 2)	2011
Return on average equity	**18.72%**	14.89%	14.94%
Return on average assets	**2.38%**	1.92%	1.81%
Net interest margin on average earning assets	**5.88%**	5.19%	5.49%
Liquidity ratio	**51.68%**	41.66%	41.27%
Debt-to-Equity ratio	**7.00:1**	6.73:1	6.74:1
Asset-to-Equity ratio	**8.00:1**	7.73:1	7.74:1
Interest rate coverage ratio	**2.76:1**	1.91:1	1.61:1

22. Net Service Fees and Commission Income

This account consists of:

	2013	2012	2011
Service Fees and Commission Income			
Credit-related fees and commissions	**₱574,481,667**	₱499,327,319	₱373,311,437
Deposit-related and other fees received	**453,337,245**	428,578,828	395,843,819
Trust fees	**12,576,165**	10,963,734	7,894,245
	1,040,395,077	938,869,881	777,049,501
Service Fees and Commission Expense			
Commissions	**71,798,311**	49,564,765	33,574,487
Brokerage	**6,038,309**	10,680,792	10,596,836
	77,836,620	60,245,557	44,171,323
Net Service Fees and Commission Income	**₱962,558,457**	₱878,624,324	₱732,878,178

23. Miscellaneous Income

This account consists of:

	2013	2012	2011
Recovery of charged-off assets	**₱83,783,149**	₱29,240,811	₱8,599,654
Rent (Notes 12 and 25)	**46,878,019**	65,555,333	68,638,888
Insurance commission income	**31,097,664**	27,612,017	8,619,990
Others	**19,512,268**	20,542,040	97,061,534
	₱181,271,100	₱142,950,201	₱182,920,066

Rent income arises from the lease of properties and safety deposit boxes of the Bank.

Others include income from renewal fees, checkbook charges, dividend income and other miscellaneous income.

24. Retirement Benefits

The Bank has a funded, noncontributory defined benefit plan covering substantially all of its employees. The benefits are based on years of service and final compensation.

The plan administered by the Retirement Committee is composed of five (5) members appointed by the Board of Directors of the Bank. The Retirement Committee have all the powers necessary or useful in the discharge of its duties of administration including, but not limited to determine the rights of Members under the Plan. The Retirement Committee may adopt such rules and regulations as it deems necessary and desirable, including those governing the establishment of procedures, the use of necessary forms, and the setting up of minimum periods where notice is required. The Retirement Committee may seek advice of counsel, and may appoint an independent accountant to audit the Plan and actuary to value the plan periodically, whose professional fees and expenses may be charged to the Fund.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The date of the latest actuarial valuation is December 31, 2013.

The amounts of pension expense included in 'Compensation and fringe benefits' in the statements of comprehensive income follow:

	2013	2012 (As restated - Note 2)
Service cost		
Current service cost	**₱126,765,030**	₱101,515,600
Past service cost	**–**	43,407,200
Net interest cost	**12,851,408**	9,200,557
	₱139,616,438	₱154,123,357

The net retirement liability shown under 'Other liabilities' recognized in the Bank's statements of condition follows (in thousands):

	2013										
		Net benefit cost				**Remeasurements in other comprehensive income**					
	January 1, 2013	**Current service cost**	**Net interest**	**Subtotal**	**Benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from experience adjustments**	**Actuarial changes arising from changes in financial assumptions**	**Subtotal**	**Contribution by employer**	**December 31, 2013**
Present value of defined benefit obligation	**₱1,157,211**	**₱126,765**	**₱60,114**	**₱186,879**	**(₱113,021)**	**₱–**	**₱44,410**	**₱223,167**	**₱267,577**	**₱–**	**₱1,498,646**
Fair value of plan assets	**(900,155)**	**–**	**(47,263)**	**(47,263)**	**113,007**	**(134,749)**	**–**	**–**	**(134,749)**	**(100,000)**	**(1,069,160)**
Net defined benefit liability	**₱257,056**	**₱126,765**	**₱12,851**	**₱139,616**	**(₱14)**	**(₱134,749)**	**₱44,410**	**₱223,167**	**₱132,828**	**(₱100,000)**	**₱429,486**

	2012 (As restated - Note 2)											
		Net benefit cost					Remeasurements in other comprehensive income					
	January 1, 2012	Current service cost	Past service cost	Net interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2012
Present value of defined benefit obligation	₱895,111	₱101,516	₱43,407	₱54,370	₱199,293	(₱60,289)	₱–	₱116,417	₱6,679	₱123,096	₱–	₱1,157,211
Fair value of plan assets	(705,320)	–	–	(45,169)	(45,169)	60,289	(134,955)	–	–	(134,955)	(75,000)	(900,155)
Net defined benefit liability	₱189,791	₱101,516	₱43,407	₱9,201	₱154,124	₱–	(₱134,955)	₱116,417	₱6,679	(₱11,859)	(₱75,000)	₱257,056

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The Bank expects to contribute ₱180.0 million to its noncontributory defined benefit plan in 2014.

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	2013	2012	2011
Cash and cash equivalents			
Special deposit account	**₱115,000,000**	₱12,000,000	₱–
Certificate of time deposit (Note 29)	**25,537,612**	10,839,299	3,855,884
Equity investments			
Bank's shares (Note 29)	**636,360,070**	530,074,700	381,610,390
SMFC shares (Note 29)	**200,000,000**	200,000,000	200,000,000
Shares of other listed companies	**92,353,718**	130,722,350	118,157,890
Other assets			
Receivable from broker	**795,232**	16,500,966	1,693,309
Accrued interest receivable (Note 29)	**54,396**	17,934	2,545
	1,070,101,028	900,155,249	705,320,018
Other liabilities	**941,240**	–	–
	₱1,069,159,788	₱900,155,249	₱705,320,018

The fair value of the assets have not materially changed due to the adoption of PFRS 13.

The person exercising voting right for the foregoing equity instruments is currently a senior officer of the Bank (Note 29).

The principal actuarial assumptions used in determining retirement liability as of January 1, 2013, 2012 and 2011 are shown below:

	2013	2012	2011
Average remaining working life	**9**	9	21
Discount rate	**4.86%**	6.30%	11.16%
Turnover rate	**8.36%**	8.32%	8.43%
Future salary increases	**9.00%**	8.00%	9.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	December 31, 2013	
	Possible Fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱150,344,477)
	-1.00%	176,485,485
Turnover rate	+1.00%	(68,233,229)
	-1.00%	70,083,863
Future salary increase rate	+1.00%	164,164,654
	-1.00%	(143,572,611)

The Retirement Committee ensures that there will be sufficient assets to pay pension benefits as they fall due and maintains the plan on an actuarially sound basis considering the benefits to members.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2013	2012
Less than one year	**₱119,166,944**	₱124,974,080
More than one year to five years	**495,234,564**	433,048,090
More than five years to 10 years	**1,141,975,503**	952,233,365
More than 10 years to 15 years	**1,878,961,153**	1,470,454,738
More than 15 years to 20 years	**1,944,652,713**	1,606,488,975
More than 20 years	**3,813,253,946**	2,802,441,863

25. Leases

The Bank leases the premises occupied by its branches for periods ranging from 1 to 20 years renewable under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%. Rentals charged against profit or loss under these lease contracts amounting to ₱397.1 million in 2013, ₱390.9 million in 2012 and ₱349.6 million in 2011 are shown under 'Occupancy and equipment-related costs' in the statements of income.

Future minimum rentals payable under non-cancelable operating leases are as follows:

	2013	2012
Within one year	**₱279,880,296**	₱259,189,820
After one year but not more than five years	**776,358,893**	705,255,989
More than five years	**522,367,070**	467,632,941
	₱1,578,606,259	₱1,432,078,750

The Bank has also entered into commercial property leases on its surplus office space. These non-cancelable leases have remaining non-cancelable lease terms between 1 and 5 years. As of December 31, 2013 and 2012, there is no contingent rental income. Rent income of the Bank related to these property leases amounting to ₱45.0 million in 2013, ₱63.5 million in 2012 and ₱66.4 million in 2011 are shown under 'Miscellaneous income' in the statements of income.

Future minimum rentals receivable under non-cancelable operating leases are as follows:

	2013	2012
Within one year	**₱20,408,527**	₱43,871,637
After one year but not more than five years	**7,958,099**	25,463,775
	₱28,366,626	₱69,335,412

26. **Miscellaneous Expenses**

This account consists of:

	2013	2012	2011
Insurance	**₱264,634,335**	₱245,939,520	₱243,985,774
Information technology	**220,459,184**	141,565,324	181,330,604
Litigation	**177,360,033**	154,395,978	118,692,442
Advertising	**159,206,964**	116,906,856	185,498,427
Communications	**139,105,183**	114,799,829	112,408,381
Repairs and maintenance	**98,794,593**	84,755,492	79,863,439
Transportation and traveling	**94,395,679**	84,366,717	82,417,797
Fines, penalties and other charges	**93,456,025**	13,183,640	20,510,728
Stationery and supplies	**66,536,407**	55,293,344	61,626,045
Supervision and examination fees	**36,687,158**	31,925,841	28,141,769
Management and professional fees	**29,283,846**	37,795,726	34,366,528
Donations and charitable contributions	**21,358,243**	12,747,490	1,213,237
Membership fees and dues	**11,812,780**	10,313,380	7,891,814
Rewards and incentives	**7,788,534**	2,407,329	5,899,131
Banking activities expenses	**6,891,511**	15,899,826	11,108,238
Training and seminars	**4,762,788**	4,406,740	6,506,744
Meeting allowance	**2,990,424**	2,351,637	2,343,859
Entertainment, amusement and recreation (EAR) (Note 27)	**1,441,308**	1,866,721	1,759,511
Others	**21,943,382**	22,225,790	22,732,526
	₱1,458,908,377	₱1,153,147,180	₱1,208,296,994

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation amounting to ₱196.4 million, ₱186.6 million and ₱189.1 million in 2013, 2012 and 2011, respectively.

Other expenses include sponsorship expenses, home free loan expenses, appraisal fees and notarial fees. It also include payments to union members amounting to ₱9.3 million in 2013 and ₱8.9 million in 2012 and 2011, respectively, for the successful completion of the collective bargaining agreement.

27. **Income and Other Taxes**

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST).

Income taxes include corporate income tax, further discussed below, and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

The NIRC of 1997 also provides for rules on the imposition of a 2.00% MCIT on the gross income as of the end of the taxable year beginning on the fourth (4th) taxable year immediately following the taxable year in which the company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three (3) immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Bank elected to claim itemized expense deductions instead of the OSD in computing for the RCIT in 2013 and 2012.

On March 15, 2011, the BIR issued RR No. 4-2011 which prescribes the attribution and allocation of expenses between FCDUs/EFCDUs or OBU and RBU, and further allocation within RBU based on different income earning activities. Pursuant to the regulations, the Bank made an allocation of its expenses in calculating income taxes due for RBU and FCDU.

Current tax regulations also provide for the ceiling on the amount of EAR expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%.

Under current tax regulations, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for (benefit from) income tax consists of:

	2013	2012	2011
Current:			
Final tax	**₱190,973,012**	₱273,076,804	₱399,950,508
RCIT	**167,700,706**	155,753,975	69,627,255
	358,673,718	428,830,779	469,577,763
Deferred	**821,500,247**	116,501,297	(493,938,013)
	₱1,180,173,965	₱545,332,076	(₱24,360,250)

Net deferred tax assets consist of:

	2013	2012 (As restated - Note 2)
Deferred tax assets on:		
Allowance for credit and impairment losses	**₱349,349,619**	₱1,186,714,132
Net pension liability	**128,845,976**	77,116,696
Accumulated depreciation on investment properties	**63,162,431**	60,719,018
Accrued rent	**38,336,020**	40,875,999
Unamortized pension cost contribution	**5,679,943**	9,319,649
	585,373,989	1,374,745,494

(Forward)

	2013	2012 (As restated - Note 2)
Deferred tax liabilities on:		
Net unrealized gain on investment properties	**(₱247,613,399)**	(₱237,838,315)
Accretion of interest on impaired loans	**(84,227,313)**	(106,635,388)
Unrealized foreign exchange gains	**(10,414,030)**	(5,501,110)
	(342,254,742)	(349,974,813)
	₱243,119,247	₱1,024,770,681

As of December 31, 2013 and 2012, the Bank did not recognize deferred tax assets on allowance for credit losses and other accrued expenses amounting to ₱1.2 billion and ₱332.4 million, respectively.

The reconciliation between the statutory income tax and effective income tax follows (in thousands):

	2013	2012 (As restated - Note 2)	2011
Statutory income tax	**₱1,232,599**	₱845,975	₱601,320
Tax effect of:			
FCDU income	**(6,718)**	(76,620)	(56,710)
Tax-paid and tax-exempt income	**(1,287,110)**	(867,385)	(466,573)
Nondeductible expenses	**440,495**	328,863	408,139
Changes in deferred income taxes	**800,908**	314,499	(510,536)
Effective income tax	**₱1,180,174**	₱545,332	(₱24,360)

28. **Earnings Per Share**

The following table presents information used to calculate basic EPS:

	2013	2012 (As restated - Note 2)	2011
a. Net income	**₱2,928,488,808**	₱2,274,583,889	₱2,028,758,682
b. Weighted average number of common shares for basic EPS	**240,252,491**	240,252,491	240,252,491
c. Basic/Diluted EPS (a/b)	**₱12.19**	₱9.47	₱8.44

As of December 31, 2013, 2012 and 2011, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

29. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family member,
- significant investor or parent company,
- joint venture, associate and post-employment benefit plan for the benefit of the Bank's employees, and
- affiliates or other related parties, which are associates, subsidiaries, and joint ventures of the parent company.

The Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectibility or present other unfavorable conditions.

Transactions with the Retirement Plan

On December 20, 2012, the SEC issued Memorandum Circular No. 12 providing for guidelines on the disclosure of transactions with retirement benefit funds. Under said circular, a reporting entity shall disclose information about any transaction with a related party (retirement fund, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has business relationships with its retirement plan pursuant to which it provides trust and management services to the said plan. The retirement plan of the employees of the Bank is being managed and maintained by the Trust and Investment Division of the Bank. The total carrying amount and fair value of the retirement fund as of December 31, 2013 and 2012 amounted to ₱1.1 billion and ₱0.9 billion, respectively. The details of the assets of the fund as of December 31, 2013 and 2012 are disclosed in Note 24.

The following table shows the amount of outstanding balances of related party transactions of the Bank and SMFC with the retirement plan of the employees of the Bank as of December 31, 2013 and 2012:

		2013	
		Elements of Transaction	
Related Party	Nature of Transaction	Statement of Condition	Statement of Income
Philippine Savings Bank	Equity investment*	**₱636,360,070**	
	Time deposits**	**25,537,612**	
	Accrued interest income	**2,840**	
	Dividends earned		**₱33,387,572**
	Gain on sale of equity securities		**50,095,400**
	Interest income		**65,513**
Sumisho Motor Finance Corporation	Equity investment	**200,000,000**	

*Includes fair value gains of ₱421.1 million
**Represent 6 to 7 day time deposits and bear interest of 1.00%

		2012	
		Elements of Transaction	
Related Party	Nature of Transaction	Statement of Condition	Statement of Income
Philippine Savings Bank	Equity investment*	₱530,074,700	
	Time deposits**	731,143	
	Accrued interest income	158	₱158
	Dividends earned		9,193,516
	Gain on sale of equity securities		14,499,589
Sumisho Motor Finance Corporation	Equity investment	200,000,000	

*Includes fair value gains of ₱287.6 million
**Represent 30-day time deposits and bear interest of 3.25%

Transactions relating to the Bank's retirement plan are approved by its Retirement Committee. The voting right over the investments in the Bank's capital stocks is exercised by a member of the Retirement Committee as approved by all members of the Retirement Committee, whom are senior officers of the Bank.

The Trust Division did not provide any allowance for impairment losses on investments managed for the Bank's retirement fund in 2013 and 2012.

Remunerations of Directors and Other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures.*

Total remunerations of key management personnel (covering assistant vice presidents and up) included under 'Compensation and fringe benefits' in the statements of income are as follows:

	2013	2012
Short-term employee benefits	**₱197,100,931**	₱183,888,423
Post-employment pension benefits	**41,273,818**	6,033,540
	₱238,374,749	₱189,921,963

Short-term employee benefits include salaries and other non-monetary benefits.

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱13.0 million, ₱12.9 million and ₱11.3 million in 2013, 2012 and 2011, respectively.

The Bank also provides banking services to Directors and other key management personnel and persons connected to them.

Other Related Party Transactions

Other related party transactions of the Bank by category of related party are presented below. The following tables show the amount and outstanding balances included in the financial statements (in thousands):

		December 31, 2013	
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant Investor			
Interbank loans receivable		**₱–**	Peso-denominated lending with fixed interest rates ranging from 2.00% to 3.25% and maturities ranging from 4 to 6 days
Deposits/placements	**₱74,880,000**		
Withdrawals/maturities	**74,880,000**		
Due from other banks	**187,608**	**1,021,853**	Secured - ₱1,021,853 Short-term peso and foreign currency-denominated deposits with fixed rates ranging from 0.00% to 2.50%
Accounts receivable	**4,080**	**7,025**	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Prepaid expense		**235**	Payment for acquisition of SCA-2 device (HP) with 3 smart cards
Miscellaneous assets		**710**	Security deposits on lease contracts
Accounts payable		**2,261**	Unpaid association dues and lease contract payable
Miscellaneous liabilities		**6,100**	Advance payments of security deposits from various tenants
Accrued other expense payable		**71,883**	Outstanding information technology expense payable, charges on current and savings accounts processing
Guarantees and commitments	**10,005**		Letter of guarantee for various loan take-out
Available-for-sale investments		**50,000**	Pledge for security of payroll account with MBTC
Interest income	**10,301**		Income from deposits and interbank loans receivables
Rental income	**23,052**		Income from leasing agreements with various lease terms ranging from 2 to 5 years
Information technology expense	**148,103**		Payment of information technology transactions
Trading gain	**50,841**		Income from securities transactions
Interest expense	**2,156**		Interest expense on deposit liabilities
Securities transactions			
Outright purchases	**1,500,000**		Outright purchase of FVPL and AFS investments
Outright sales	**3,048,120**		Outright sale of FVPL and AFS investments
Associate			
Investment in an associate		**681,397**	Outstanding balance of capital investment in TFSPC
Deposit liabilities	**(134)**	**2,175**	Demand deposits with annual fixed rate of 1.25%
Share in net earnings of an associate	**109,202**		25.00% Share in net income of TFSPC
Interest expense	**33**		Interest on deposit liabilities
Joint Venture			
Investment in a joint venture		**664,746**	Outstanding balance of capital investment in SMFC
Accounts receivable	**(127)**	**1,051**	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	**(457,771)**	**254,462**	Demand and short term peso time-deposits with annual fixed rates ranging from 1.00% to 3.65%
Miscellaneous liabilities		**2,610**	Advance payment of security deposits
Rental income	**9,605**		Income from leasing agreements
Share in net earnings of a joint venture	**367**		40.00% share in net income of SMFC
Interest expense	**15,142**		Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable		**–**	Peso-denominated lending with fixed interest rates ranging from 2.00% to 3.63% with maturities ranging from 1 to 3 days
Deposits/placements	**28,085,000**		
Withdrawals/maturities	**28,585,000**		
Receivable from customers		**453,343**	Loans granted bearing an interest ranging from 9.00% to 11.70% with maturities ranging from 1 to 8 years; no impairment Secured - ₱368,847; Unsecured - ₱84,496; impaired - ₱268,273
Deposits/placements	**6,295**		
Withdrawals/maturities	**54,280**		

(Forward)

			December 31, 2013
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Miscellaneous assets		**₱925**	3 months advance security deposits
Accounts receivable	**(₱47)**	**1,242**	Outstanding rental and utility receivables, non-interest bearing
Prepaid expense		**7,219**	Payment of various motor car vehicles, fire, money, security, payroll and robbery insurance
Deposit liabilities	**2,365,121**	**3,593,455**	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 3.68%
Accrued other expense payable		**3,579**	Outstanding group life insurance payable
Accounts payable		**207**	Various personal and car insurance payable
Miscellaneous liabilities		**1,020**	Advance payment of security deposits from various tenants
Interest income	**55,970**		Income on receivables from customers and interbank loans receivables
Rental income	**6,245**		Income from leasing agreements with various lease terms
Gain on sale of property and equipment	**33,798**		Gain on sale of Bank-owned properties
Bank commission	**6,139**		Commission income on ATM service fees
Insurance expense	**37,659**		Payment of insurance premium
Interest expense	**91,888**		Interest on deposit liabilities
Securities transactions			
Outright purchases	**480,000**		Outright purchase of FVPL and AFS investments
Outright sales	**600,000**		Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers		**14,352**	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Deposits/placements	**4,373**		
Withdrawals/maturities	**6,248**		
Interest income	**1,170**		Interest income from loans

			December 31, 2012
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investor			
Interbank loans receivable		₱–	Peso-denominated lending with fixed interest rates ranging from 3.88% to 4.78% with maturities ranging from 1 to 6 days
Deposits/placements	₱146,875,000		
Withdrawals/maturities	146,875,000		
Due from other banks	262,078	834,246	Short term peso and foreign currency denominated deposits with fixed rates ranging from 0.00% to 2.50%
Accounts receivable	(3)	2,945	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Property, plant and equipment		73,783	Purchase of a bank property
Miscellaneous assets		3,945	Security deposits from leased properties
Miscellaneous liabilities		6,100	Advance payment of security deposits from various tenants
Accrued other expense payable		67,599	Outstanding information technology expense, charges on current and savings accounts processing
Guarantees and commitments		5,526	Letters of guarantee from various loan take-out
Held-to-maturity investments		50,000	Pledge for security of payroll account with MBTC
Interest income	37,282		Income on deposits and interbank loans receivables
Rental income	22,481		Income from leasing agreements with various lease terms
Information technology expense	76,039		Payment of information technology transactions
Securities transactions			
Outright purchases	900,000		Outright purchase of FVPL and AFS investments
Outright sales	1,530,800		Outright sale of FVPL and AFS investments
Associate			
Investment in an associate		574,397	Outstanding balance of capital investment in TFSPC
Deposit liabilities	257	2,309	Demand deposits with annual fixed rate of 1.25%
Share in net earnings of an associate	51,148		25.00% share in net income of TFSPC
Interest expense	27		Interest on deposit liabilities

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			December 31, 2012
Joint Venture			
Investment in a joint venture		₱689,405	Outstanding balance of capital investment in SMFC
Accounts receivable	₱205	1,178	Outstanding rental and utility receivables, non-interest bearing; no impairment
Deposit liabilities	(235,619)	712,233	Demand and short term peso time deposits with annual fixed rates ranging from 0.75% to 3.65%
Miscellaneous liabilities		2,068	Advance payment of security deposits
Rental income	9,605		Income from leasing agreements
Share in net loss of a joint venture	25,491		40.00% share in net loss of SMFC
Interest expense	34,138		Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable		500,000	Peso-denominated lending with fixed interest rate ranging from 3.63% to 4.50% and a maturity term ranging from to 5 days
Deposits/placements	54,856,000		
Withdrawals/maturities	54,356,000		
Receivables from customers		501,327	Loans granted bearing an interest ranging from 6.00% to 11.50% with maturities ranging from 2 to 10 years; secured - ₱393,796; unsecured - ₱107,531; impaired - ₱303,195
Deposits/placements	1,700		
Withdrawals/maturities	49,060		
Miscellaneous assets		925	Security deposits from lease properties
Accrued interest receivable		201	Accrual of interest from interbank call loans
Accounts receivable	(313)	1,289	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense		8,957	payment of various motor car vehicles and fire insurance
Deposit liabilities	(8,273,101)	1,228,334	Demand, savings and short term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 4.00%
Miscellaneous liabilities		696	Advance payment of security deposits from various tenants
Accrued other expense payable		6,629	Outstanding group life insurance premium liability
Interest income	63,805		Interest income on receivables from customers and peso denominated interbank call loans
Rental income	25,678		Outstanding rental and utility receivables, non-interest bearing
Bank commission	6,286		Commission on ATM service fees
Insurance expense	28,268		Payment of insurance
Interest expense	252,081		Interest on deposit liabilities
Securities transactions			
Outright purchases	5,250,000		Outright purchase of FVPL and AFS investments
Outright sales	3,650,000		Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers			Unsecured, no impairment, with annual fixed interest rates of 6% and maturities ranging from 2 to 10 years
Deposits/placements	4,087	16,227	
Withdrawals/maturities	2,410		
Interest income	1,170		Interest income from loans

Regulatory Reporting

As required by the BSP, the Bank discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Bank. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said circular and new DOSRI loans and other credit accommodations granted under said circular as of December 31, 2013 and 2012:

	2013	2012
Total outstanding DOSRI accounts	**₱1,709,337,946**	₱1,564,583,651
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423 to total loans	**1.95%**	2.03%
Percent of new DOSRI accounts granted under BSP Circular No. 423 to total loans	**–**	–
Percent of unsecured DOSRI accounts to total DOSRI accounts	**15.90%**	18.64%
Percent of past due DOSRI accounts to total DOSRI accounts	**26.32%**	31.88%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	**26.32%**	31.88%

As of December 31, 2013 and 2012, the Bank has no loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered DOSRI accounts prior to the issuance of said circular but are allowed a transition period of two years from the effectivity of the said circular until said circular or said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

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

On May 12, 2009, BSP issued Circular No. 654 allowing a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank to loans of banks to their subsidiaries and affiliates engaged in energy and power generation.

As of December 31, 2013 and 2012, the Bank is in compliance with these requirements.

Total interest income from DOSRI loans amounted to ₱53.2 million, ₱55.4 million and ₱60.4 million in 2013, 2012 and 2011, respectively.

30. **Trust Operations**

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these are not assets of the Bank.

In connection with the trust functions of the Bank, government securities (classified under AFS investments) with face value of ₱40.0 million as of December 31, 2013 and 2012 are deposited with the BSP in compliance with trust regulations.

For 2013 and 2012, the Bank did not appropriate any surplus reserve resulting from the operations of the Bank's Trust Department since it is still in a net loss position. No part of such surplus reserve shall at any time be paid out in dividends, but losses accruing in the course of its trust business may be charged against surplus.

31. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2013	2012
Trust department accounts (Note 30)	**₱1,183,684,353**	₱1,293,415,295
Stand-by credit lines	**73,413,399**	94,632,544
Late deposits/payments received	**63,998,571**	61,753,601
Items held for safekeeping	**260,102**	303,772
Others	**26,095**	17,869

Also, several suits and claims, in behalf or against the Bank in relation to its lending operations and labor-related cases are pending before the courts and quasi-judicial bodies. In the opinion of management, these suits and claims, if decided adversely, will not involve an amount having a material effect on the financial statements.

32. Notes to Statements of Cashflows

The following is a summary of principal non-cash activities that relate to the analysis of the statements of cash flows:

	2013	2012	2011
Additions to investment properties in settlement of loans (Note 12)	**₱752,249,442**	₱491,398,630	₱600,182,806
Additions to chattel mortgage in settlement of loans (Note 14)	**1,025,399,887**	840,698,632	667,187,188
Transfers from investment property to property and equipment (Notes 11 and 12)	**68,749,769**	–	–
Net increase (decrease) in the fair value of AFS investments	**(183,813,692)**	(2,193,594,598)	2,044,596,539
Dividends declared and unpaid	**2,330,667**	176,673,172	35,370,001
Cumulative translation adjustment	**12,735,179**	(6,006,080)	(1,693,565)

33. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7, which is effective January 1, 2013, requires the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2013						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statement of condition [a-b]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Securities Purchased Under Resale Agreements (SPURA)	**₱14,527,000,000**	**₱–**	**₱14,527,000,000**	**₱–**	**₱15,674,388,764**	**₱–**

December 31, 2012						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of condition [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Securities Purchased Under Resale Agreements (SPURA)	₱4,750,000,000	₱–	₱4,750,000,000	₱–	₱4,745,893,484	₱4,106,516

34. Subsequent Events

On January 24, 2014, the BOD of the Bank declared a 7.50% regular cash dividend for the fourth quarter of 2013 amounting to ₱180.19 million or ₱0.75 per share. This was approved by BSP on February 12, 2014.

35. Approval for the Release of the Financial Statements

The accompanying comparative financial statements were reviewed and approved for release by the Bank's Audit Committee and BOD on February 21, 2014.

36. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 19-2011 and 15-2010

Supplementary Information under RR No. 19-2011

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the Bureau of Internal Revenue (BIR) issued RR No. 19-2011 which requires companies to disclose certain tax information in their respective notes to financial statements.

For the taxable year ended December 31, 2013, the Bank reported the following revenues and expenses for income tax purposes:

Revenues

Services/operations	₱7,837,651,337
Non-operating and taxable other income:	
Service charges, fees and commissions	₱1,025,208,917
Others	295,110,910
	₱1,320,319,827

Expenses

Cost of services:	
Compensation and fringe benefits	₱1,409,987,377
Others	2,444,801,508
	₱3,854,788,885
Itemized deductions:	
Taxes and Licenses	₱784,049,633
Compensation and fringe benefits	628,905,772
Rent	386,265,943
Depreciation	323,224,585
Communication, light and water	287,298,162
Security, messengerial and janitorial	242,402,981
Information technology	215,168,662
Advertising	122,286,076
Repairs and maintenance	94,968,406
Transportation and travel	65,941,734
Management and professional fees	29,283,846
EAR	1,441,308
Others	1,564,949,348
	₱4,746,186,456

Supplementary Information Under RR No. 15-2010
On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002. The regulations provide that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Bank reported and/or paid the following types of taxes for the year:

Taxes and Licenses
For the taxable year ended December 31, 2013, taxes and licenses of the Bank consist of:

Gross receipts tax	₱706,231,683
Documentary stamp tax	287,595,580
Local taxes	34,814,644
Real property tax	15,136,426
Fringe benefit tax	9,108,931
Others	953,700
	₱1,053,840,964

Withholding Taxes
Details of total remittances of withholding taxes for the taxable year ended December 31, 2013 are as follows:

Withholding taxes on compensation and benefits	₱367,994,863
Expanded withholding taxes	81,758,145
Final withholding taxes	273,514,158
	₱723,267,166

PARTIES TO THE ISSUE

ISSUER

Philippine Savings Bank
PSBank Center
777 Paseo de Roxas corner
Sedeno St., Makati City

LEAD MANAGER AND SELLING AGENT

ING Bank N.V., Manila Branch
21/F Tower One, Ayala Triangle
Ayala Avenue, Makati City

MARKET MAKER AND SELLING AGENT

Multinational Investment Bancorporation
41/F Rufino Pacific Tower
6784 Ayala Ave. Makati City

LIMITED SELLING AGENTS

Philippine Savings Bank
PSBank Center
777 Paseo de Roxas corner
Sedeno St., Makati City

First Metro Investment Corporation
44/F GT Tower International
6813 Ayala Avenue Corner
HV Dela Costa Street, Makati City

REGISTRAR AND PAYING AGENT

Philippine Depository & Trust Corp
37 Floor, Tower 1, Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City

PUBLIC TRUSTEE

Development Bank of the Philippines
Trust Services Department
DBP Bldg., Sen. Gil J. Puyat Ave
Makati City

LEGAL ADVISER TO THE ISSUE

Picazo Buyco Tan Fider and Santos
19/F, 18/F and 17/F Liberty Center
104 H.V. de la Costa St., Makati City

INDEPENDENT AUDITOR

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
Makati City
6760 Ayala Ave., Makati City