



10 November 2014

**JANET A. ENCARNACION**  
**HEAD, DISCLOSURE DEPARTMENT**  
3F Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City, Philippines 1226

Dear Madam:

We would like to submit the attached SEC 17-Q report of Philippine Savings Bank (PSBank) for the period ended September 30, 2014.

Thank you very much.

Very truly yours,

**Perfecto Ramon Z. Dimayuga Jr.**  
SVP and Chief Finance Officer

# COVER SHEET

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SEC Registration Number

P H I L I P P I N E S A V I N G S B A N K

(Company's Full Name)

P S B a n k C e n t e r , 7 7 7 P a s e o d e R o x a s

c o r n e r S e d e ñ o S t r e e t , M a k a t i C i t

y

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

Perfecto Ramon Z. Dimayuga Jr.  
(Contact Person)

885-8208  
(Company Telephone Number)

1 2     3 1  
Month     Day  
(Fiscal Year)

1 7 - Q  
(Form Type)

3rd Quarter 2014

Month     Day  
(Annual Meeting)

(Secondary License Type, If Applicable)

SEC-Corporation Finance  
Dept. Requiring this Doc.

Amended Articles Number/Section

1,557  
Total No. of Stockholders  
As of September 30, 2014

Total Amount of Borrowings  
Domestic     Foreign

To be accomplished by SEC Personnel concerned

File Number

\_\_\_\_\_ LCU

Document ID

\_\_\_\_\_ Cashier

STAMPS

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## SEC FORM 17-Q

### QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE

1. For the quarterly period ended : **September 30, 2014**
2. Commission identification number : **15552**
3. BIR tax identification number : **000-663-983-000**
4. Exact name of registrant as specified in its charter:  
**o PHILIPPINE SAVINGS BANK**
5. Province, country or other jurisdiction of incorporation or organization:  
**o City of Manila, Philippines**
6. Industry classification code :  (SEC Use Only)
7. Address of registrant's principal office:  
**o PSBank Center, 777 Paseo de Roxas cor. Sedeño St., Makati City**
8. Registrant's telephone number, including area code  
**o (632) 885-8208**
9. Former name, former address and former fiscal year, if changed since last report:  
**o Not applicable**
10. Securities registered pursuant to Sections 4 and 8 of the RSA:

o Title of each class	<b>Common Shares</b>
o Number of shares of common stock outstanding	<b>240,252,491</b>
o Amount of debt outstanding	<b>₱5,945,659,246</b>
	<b>(Tier II Subordinated Notes)</b>
11. Are any or all of the securities listed on the Philippine Stock Exchange?  
**o Yes**
12. Indicate by check mark whether the registrant:
  - (a) has filed all reports required to be filed by Section 17 of the Securities Regulation Code and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports).  
Yes  No
  - (b) has been subject to such filing requirements for the past 90 days.  
Yes  No

## PART I – FINANCIAL INFORMATION

### Item 1. Management Discussion and Analysis of Financial Condition and Results of Operations

### Item 2. Financial Statements

Attached are the following:

Interim Statements of Condition	Annex 1
Interim Statements of Income	Annex 2
Interim Statements of Changes in Equity	Annex 3
Interim Statements of Comprehensive Income	Annex 4
Interim Statements of Cash Flows	Annex 5
Aging of Receivables	Annex 6
Business Segment	Annex 7
Schedule of Financial Performance Indicators	Annex 8

## PART II – OTHER INFORMATION

### 1. Control of Registrant

The following stockholders own more than 5% of the total outstanding number of shares issued as of September 30, 2014:

Name of Stockholder	Outstanding Number of Shares	Percent to Total No. of Shares
Metropolitan Bank and Trust Co.	182,535,895	75.98%
PCD Nominee Corp. (Filipino)	18,324,260	7.63%
Danilo L. Dolor	12,610,891	5.25%

As of September 30, 2014, there is no person who holds more than 5% of the Bank's securities lodged with PCD Nominee Corporation.

### 2. Legal Proceedings

The Bank in the course of its operations and in running its business, has several legal cases that are filed in its behalf and against it. However, these cases will not give any material effect to its financial status nor would have any material impact in continuing its operations. These cases are part of its daily business activities and consequence of its collection efforts and business dealings with the public.

### 3. Board Resolutions

All material disclosures of the Bank had been made under SEC 17-C.

**PHILIPPINE SAVINGS BANK  
SEC FORM 17-Q  
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

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**Item 1. Management Discussion and Analysis**

**A. Analysis of Statements of Condition**

**September 30, 2014 (Unaudited) and December 31, 2013 (Audited)**

The Bank's Total Assets as of September 30, 2014 was recorded at ₱151.17 billion, this was 16.26% better than the ₱130.03 billion level in December 2013. The Bank continued to strengthen its foothold in the consumer lending market with improvement in its Auto and Mortgage portfolio.

Loans and Receivables, net of allowance and unearned interest and discounts representing 61.01% of total assets, stood at ₱92.23 billion. This was ₱9.32 billion higher than the December 2013 level of ₱82.92 billion. Mortgage and Auto Loans rose by 16.52% and 14.11%, respectively.

Interbank Loans Receivable and Securities Purchased under Resale Agreements, which was 16.76% of total assets, were higher by 74.43% to ₱25.34 billion versus December 2013 level of ₱14.53 billion. Cash and Other Cash Items were lower by 38.37% to ₱ 1.95 billion. On the other hand, Due from Bangko Sentral ng Pilipinas, representing 7.47% of total assets, increased to ₱11.29 billion from ₱7.40 billion in December 2013. This was due to the 2.0% hike in statutory reserve requirement imposed on Thrift Banks by the BSP in April and May 2014. Due from other Banks slid by ₱4.97 billion to ₱3.52 billion.

Available-for-Sale Investments went up by ₱1.58 billion, to ₱7.23 billion from ₱5.65 billion in December 2013. Held-to-Maturity Investments amounted to ₱1.69 billion as of September 2014. Meanwhile, Financial Assets at Fair Value through Profit or Loss (FVPL) went down to ₱51.39 million from ₱184.61 million in December 2013.

Investments in an associate and joint venture went down by 51.05%, or ₱687.17 million lower to ₱658.97 million from ₱1.35 billion, due to sale of the Bank's 25% ownership in Toyota Financial Services Philippines Corporation (TFSPC) to GT Capital Holdings Inc.

Investment Properties went up to ₱2.86 billion as of September 2014 from ₱2.59 billion in December 2013 with more foreclosures of real estate properties. Property and Equipment increased by ₱67.67 million to ₱2.46 billion as of September 2014.

Deferred Tax Assets went up by 135.87% to ₱573.44 million versus ₱243.12 million in December 2013 due to recognition of deferred tax on provision for probable losses on loans. Goodwill and Other Intangibles reflected an increase of ₱56.73 million to ₱349.56 million from ₱292.83 million in 2013. Meanwhile, Other Assets increased to ₱968.37 million from ₱836.30 million level in December 2013. This was mainly due to the increase in prepaid insurance and creditable withholding taxes.

The Bank's deposit level, comprising 91.87% of total liabilities, improved by 15.18% to ₱122.69 billion from ₱106.52 billion as of December 2013. The increase came from across all deposit products with growth in CASA of ₱3.02 billion and time deposits of ₱13.15 billion.

On May 23, 2014, the Bank issued a ₱3.0 billion Unsecured Subordinated Notes (Tier II) with an interest rate of 5.50% due on August 23, 2024, callable in 2019. The Notes will qualify as Tier II capital in the BSP's revised risk-based capital adequacy framework in line with Basel III standards. The issuance has a loss absorption feature to conform with Basel III requirements. The Notes were rated "Aaa" by Philratings. As of September 30, 2014, the total Tier II Notes, including those issued last February 2012, amounted to ₱5.95 billion.

Treasurer's, Cashier's and Manager's Checks increased to ₱1.20 billion from ₱1.11 billion in December 2013. Accrued Taxes, Interest and Other Expenses were up by ₱66.09 million to ₱1.17 billion from ₱1.10 billion. Income Tax Payable as of September 2014 was at ₱38.22 million. This represents accrual for the current quarter, due for remittance on or before December 1, 2014. Financial Liabilities at FVPL stood at ₱2.87 million as of September 2014. Other Liabilities were posted at ₱2.51 billion from ₱2.06 billion as of year-end 2013.

The Capital stood at ₱17.61 billion, 8.33% higher than last year's level of ₱16.26 billion. The Bank's mark-to-market gains from its Available-for-Sale Investments were recorded at ₱42.07 million in September 2014 versus ₱22.29 million in December 2013. The Net Unrealized Gain on Available-for-Sale Investment of an Associate went up to ₱35 thousand from ₱25 thousand in December 2013. Share in Cash Flow Hedge Reserve of an Associates was negative ₱335.16 thousand in 2013 versus zero in September 2014. Meanwhile, share in Remeasurement Losses on Retirement Plan of a Joint Venture was posted at ₱21.72 thousand from negative ₱479.69 thousand in 2013.

Return on Average Equity (ROAE) went down to 13.94% in September 2014 compared to 18.72% in December 2013. Return on Average Assets (ROAA) slid to 1.68% in 2014 versus to 2.38% in 2013.

## **B. Discussion of Results of Operations**

### **For the nine months-ended September 30, 2014 vs. September 30, 2013 (Unaudited)**

As of September 30, 2014, the Bank registered a Net Income after Tax of ₱1.88 billion or 41.49% lower than the ₱3.21 billion recorded for the same period last year. The decrease in net income was attributed to significantly higher gains on its securities trading activities in 2013.

Total Interest Income went up by ₱831.90 million to ₱7.53 billion versus ₱6.70 billion in 2013.

Interest income on Loans and Receivables was posted at ₱6.55 billion, 8.95% higher than the ₱6.01 billion recorded during the same period last year. Interest earned from Interbank Loans Receivable and SPURA increased to ₱664.07 million, 100.59% better than the ₱331.06 million in 2013. Interest income from deposits with other banks went up by 130.62% to ₱13.50 million while Interest earned from deposits with BSP increased by 30.49% to ₱41.09 million. On the other hand, Interest income on Investment Securities went down to ₱262.66 million from ₱318.90 million due to the Bank's lower investment portfolio in 2014.

Interest Expenses on deposit liabilities slid to ₱1.58 billion from ₱1.68 billion due to lower cost of funds. Interest Expenses on Subordinated Notes rose by 50.61% to ₱201.62 million from ₱133.87 million due to the amortization of debt issuance costs related to the ₱3.0 billion Unsecured Subordinated Notes (Tier II) last May 2014.

As of September 2014, Net Interest Income improved by 17.71% to ₱5.75 billion from ₱4.88 billion the same period last year.

Net Service Fees and Commission Income increased to ₱796.10 million from ₱710.39 million in 2013.

Other Operating Income slid by 69.04% or ₱3.41 billion to ₱1.53 billion due to lower trading gains recorded this year. The Bank registered ₱203.64 million trading gains in 2014, ₱3.98 billion lower than the ₱4.18 billion trading gains in 2013.

In 2014, the Bank recorded a net gain on the foreclosure and sale of chattel mortgage amounting to ₱255.16 million, ₱54.13 million lower compared with the ₱309.29 million gain during the same period last year. In January 2014, to align with the Metrobank group's policy, the Bank revised its accounting treatment with regards to the foreclosure of chattel mortgage properties. This is discussed on page 10 of this report. Net gain on foreclosure and sale of investment properties increased by ₱41.89 million to ₱249.19 million from ₱207.30 million in 2013. Gain on sale of property and equipment decreased by ₱97.79 million due to the sale of various Bank properties located at Phil Axa Tower in August 2013.

Miscellaneous Income was higher by ₱665.58 million to ₱777.72 million from ₱112.14 million with the sale of the Bank's equity investments in TFSPC. Foreign Exchange gain was posted at ₱5.59 million from a ₱6.43 million loss in September 2013.

Other Operating Expenses, excluding provisions for impairment and credit losses, went down to ₱4.99 billion from ₱4.63 billion in September 2013. Compensation and Fringe Benefits was posted at ₱1.84 billion while occupancy and equipment-related costs was at ₱463.40 million. Depreciation and amortization of Bank's properties and leasehold improvements were higher at ₱378.55 million from ₱360.60 million in 2013. Meanwhile, security, messengerial and janitorial services were at ₱211.78 million. Amortization of software costs was recorded at ₱58.81 million. Miscellaneous Expenses were higher by 7.99% at ₱1.20 billion from ₱1.11 billion last year.

The Bank set aside ₱1.35 billion in provisions for impairment and credit losses.

The Bank recorded its share in the net income of its investments in TFSPC and Sumisho Motor Finance Corporation at ₱66.32 million from ₱76.17 million in the same period last year.

**For the quarter-ended September 30, 2014 vs. September 30, 2013 (Unaudited)**

The Bank reported a net income after tax of ₱747.11 million for the quarter ended September 30, 2014, ₱414.98 million higher than the ₱332.12 million recorded for the same quarter last year. The increase was attributed to the gain on sale of the Bank's equity investments in TFSPC during period under review.

Total Interest Income for the third quarter of 2014 was reflected at ₱2.58 billion, 13.33% higher than ₱2.27 billion recorded for the same quarter last year. Meanwhile, Total Interest Expense was up to ₱635.05 million from ₱541.22 million due to interest expenses on the new ₱3.0 billion Tier II Notes issued last May 2014. Net Interest Income improved to ₱1.94 billion from the ₱1.73 billion during the same quarter last year.

Interest income on Loans and Receivables was better by 7.47% to ₱2.21 billion compared to the ₱2.05 billion during the same period last year. Interest earned from Interbank Loans and SPURA improved by ₱85.71 million to ₱262.21 million from ₱176.50 million while Interest earned from Investment Securities improved by ₱55.54 million to ₱90.70 million. Meanwhile, Interest earned from deposit with BSP was higher by ₱5.58 million, 95.38% higher than the ₱5.85 million level during the third quarter of 2013. Interest income from placements with other banks was reflected at ₱4.71 million versus ₱1.93 million last year.

Meanwhile, Other Operating Income improved to ₱831.42 million from ₱314.31 million recorded during the third quarter of 2013.

The net gain on sale and foreclosure of chattel mortgage properties were posted at ₱86.35 million compared to ₱95.90 million gain during the same period in 2013. In January 2014, to align with the Metrobank group's policy, the Bank revised its accounting treatment with regard to the foreclosure of chattel mortgage properties. This is discussed on page 10 of this report. Net gain from foreclosure and sale of investment properties were up at ₱91.71 million versus the ₱62.22 million during the same period last year. On the other hand, the Bank reflected lower gains on sale of property and equipment of ₱1.07 million compared to last year with the sale of various Bank's properties located at Phil Axa Tower during the third quarter of 2013. Meanwhile, Miscellaneous Income climbed to ₱646.37 million during the third quarter of 2014 with the sale of the Bank's equity investments in TFSPC. The Bank reflected a foreign exchange gains of ₱5.44 million from ₱1.54 million in 2013.

Total Operating Expenses, excluding provisions for impairment, registered an increase of ₱527.29 million to ₱1.80 billion from ₱1.27 billion in 2013. The Bank set aside additional provisions for credit losses of ₱581.33 million during the third quarter of 2014.

Compensation and fringe benefits rose by 22.19% to ₱615.36 million from ₱503.60 million in 2013. Taxes and licenses went up to ₱368.11 million from ₱197.76 million mainly due to payment of capital gains tax in connection with the sale of the Bank's investments in TFSPC. Occupancy and equipment-related costs were also higher by 9.54% or ₱13.98 million to ₱160.51 million versus ₱146.52 million during the third quarter of 2013. Security, messengerial and janitorial services increased to ₱72.23 million from a year ago level of ₱64.69 million. Amortization of software costs also increased by 7.87% to ₱21.52 million from ₱19.96 million in 2013. Miscellaneous Expense was higher at ₱438.72 million compared to ₱218.41 million in September 2013.

The Bank also reflected income from its investments in Toyota Financial Services (TFS) and Sumisho Motor Finance Corporation (SMFC) amounting to ₱21.0 million, from ₱23.42 million recorded in the same period last year.

### Analysis of Key Performance Indicators

The following ratios measure the financial performance of the Bank:

		September 30		December 31
		2014	2013	2013
		(Unaudited)		(Audited)
Return on Average Equity*	ROAE	13.94%	18.66%	18.72%
Return on Average Assets*	ROAA	1.68%	2.53%	2.38%
Net Interest Margin on Average Earning Assets	NIM	6.36%	5.85%	5.88%
Earnings per share	EPS	₱7.81	₱13.34	₱12.19
Capital-to-Risk Assets Ratio	CAR	20.06%	18.43%	16.92%
Liquidity Ratio	LR	51.45%	54.12%	51.68%
Debt-Equity Ratio	DER	7.58:1	6.09:1	7.00:1
Asset-to-Equity Ratio	AER	8.58:1	7.09:1	8.00:1
Interest Rate Coverage Ratio	IRCR	2.01:1	3.24:1	2.76:1

\* computed based on annualized/normalized net income

### **September 2014 vs. September 2013 Comparative highlights on key performance indicators**

1. Return on Average Equity (ROAE) in September 30, 2014 went down to 13.94% from 18.66% the same period last year. ROAE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing the annualized/normalized net income by the year-on-year average of the outstanding shareholders' equity.
2. Return on Average Assets (ROAA) decreased to 1.68% from 2.53% in September 2013. ROAA is calculated by dividing the annualized/normalized net income by the year-on-year average of the outstanding total assets.
3. Net Interest Margin on Average Earning Assets (NIM) went up to 6.36% in September 30, 2014 from 5.85% last year. NIM is calculated by dividing the net interest income by the average earning assets.
4. Earnings per Share (EPS) was lower at ₱7.81 as of September 30, 2014 compared to ₱13.34 reported during the same period last year. EPS represents the net profit the Bank has generated per common share. It is computed by dividing the year to date net income by the weighted average number of outstanding common shares.
5. Capital-to-Risk Assets Ratio (CAR) rose to 20.06% in September 2014 versus 18.43% in September 2013. CAR is the measure of the Bank's capital strength. It is calculated by dividing the qualified capital by risk-weighted assets as defined by the Bangko Sentral ng Pilipinas (BSP).
6. Liquidity Ratio (LR) was at 51.45% in September 2014 from 54.12% the same period last year. LR measures the Bank's ability to meet its short-term liabilities. It is derived by dividing the current assets by current liabilities.



7. Debt-to-Equity Ratio (DER) was higher at 7.58:1 from 6.09:1 in September 2013. DER indicates the extent to which the Bank's leveraged, or financed by credit. This is computed by dividing total liabilities by total stockholder's equity.

8. Asset-to-Equity Ratio (AER) increased to 8.58:1 from 7.09:1 last year. AER is computed by dividing the total assets by total shareholder's equity.

9. Interest Rate Coverage Ratio (IRCR) went down 2.01:1 this year from 3.24:1 in September 2013. IRCR is a measure of the Bank's ability to meet its interest payments on outstanding debt. It is calculated by dividing the total earnings before interest and taxes over interest expense.

### **C. Key Variables and Other Qualitative and Quantitative Factors**

#### **Liquidity**

PSBank manages its liquidity position to ensure that it has more than adequate funds to meet its obligations at any given time. The Bank monitors its daily liquidity and reserve position by determining inflows and outflows, short-term and long-term obligations, holdings and repayments. Short-term liquidity management identifies obligations and repayments in the next 12-months, aids in the determination of the securities trading strategy, and influences the Bank's pricing mechanism. On the other hand, long-term liquidity management covers maturing obligations and repayments of loans and investments beyond the next 12-months.

The level of liquid assets remained strong, in both placements with BSP/other banks and securities investments.

With the Bank's high capitalization, current liquidity position, strong deposit growth trend, continuing development of retail and corporate accounts, and prudent liquidity management, PSBank does not anticipate encountering any cash flow or liquidity problems in the next 12 months. It remains confident of its ability to meet its obligations and is committed to providing the necessary funding to support the projected loan growth, investment activities and expenditures.

The Bank also performs liquidity stress testing under various stress scenarios to ensure its ability to meet its funding obligations. The Bank has a Liquidity Contingency Funding Plan to anticipate and manage any funding crisis that may occur.

#### **Events that will Trigger Direct or Contingent Financial Obligation**

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 part of its lending and related businesses but due to their nature, may not be reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.

Also, several suit and claims, in behalf or against the Bank in relation to its operations, including 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.

#### **Material Off-Balance Sheet Transactions, Arrangements and Obligations**

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	30-Sep-14	30-Sep-13	31-Dec-13
Trust Department	₱1,565,981,906	₱2,298,201,393	₱1,183,684,353
Stand-by credit line	78,824,731	73,201,082	73,413,399
Late deposits/payments received	61,315,225	54,336,556	63,998,571
Items held for safekeeping	213,613	181,722	260,102
Others	116,555	99,368	26,095

None of these off-balance sheet transactions, arising in the ordinary course, either individually or in the aggregate, are expected to have a material adverse effect on the Bank's financial condition.

### **Material Commitments for Capital Expenditures**

The Bank's Capital Expenditure target in 2014 includes projected expenses for new branches, on-site and off-site ATMs, upgrade of bank premises including infrastructure, furniture, fixtures and equipment, IT-related activities on systems, infrastructure, and licenses.

As of September 30, 2014, the Bank had a total of 232 branches. The Bank has a total of 575 ATMs which consist of 241 onsite ATMs and 334 offsite ATMs nationwide.

### **Causes for Any Material Changes from Period to Period of Financial Statements**

See previous discussion on Analysis of Statement of Condition and Discussion of Results of Operations.

### **Known Trends, Events or Uncertainties or Seasonal Aspects**

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

### **Changes in Accounting Policies and Disclosures**

The accounting policies adopted are consistent with those of the previous financial year. The issuance of and the amendments to the following standards and interpretations which became effective January 1, 2014 were assessed to either be applicable or not applicable to the Bank.

#### *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 and have no impact on the Bank's financial position or performance.

#### *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.

#### *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. The Bank has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

#### Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)

These amendments 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. The Bank does not expect that Philippine Interpretation 21 will have material financial impact in future financial statements.

Except for the foregoing, there are no known trends, events and uncertainties or seasonal aspects that may effect liquidity or reverse the generally profitable results of operation of the Bank.

#### *PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors*

##### *Chattel Mortgage Properties*

Chattel mortgage properties comprise repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. A chattel mortgage acquired through a foreclosure is measured at the fair value of the assets foreclosed. 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.

In January 2014, the Bank changed its method of recording foreclosure of chattel to align with the Metrobank group's policy. With the new method, any gains or losses on the foreclosure representing the difference between the book value of loan and the fair value of chattel mortgage properties are recognized as "Gain/Loss on Foreclosure of Chattel Mortgage Properties". Prior to change, the Bank records chattel mortgage property upon foreclosure at the lower amount between the fair value of the property or the original carrying value, gross of allowance.

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

	September 30, 2013 (Unaudited)		
	As previously reported	Effect of application	As restated
<b>Statement of Income</b>			
Gain (loss) on foreclosure of chattel	(P115,563)	P406,375	P290,812
Provision for impairment and credit losses	1,515,044	406,375	1,921,420

There is no impact in the basic/diluted earnings per share.

#### **Significant Accounting Policies - Financial Instruments**

##### Financial Instruments - Initial Recognition and Subsequent Measurement

###### *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.

#### *'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.

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.

#### *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.

#### *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.

#### *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.

Derecognition of Financial Assets and Liabilities

*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.

### *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 repriced. 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.

## **Standards Issued but not yet Effective**

Standards issued but not yet effective up to the date 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 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.

### **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.

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 (in thousands), 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).

<b>September 30, 2014 (Unaudited)</b>					
	<b>Carrying Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
<b>Assets measured at fair value</b>					
<b>Financial Assets</b>					
FVPL investments					
HFT - government securities	P 51,393	P 51,393	P-	P-	P51,393
AFS investments					
Government debt securities	5,092,564	4,062,739	1,029,825	-	5,092,564
Private debt securities	2,131,470	2,131,471	-	-	2,131,471
Quoted equity securities	2,925	2,925	-	-	2,925
	<b>P7,278,352</b>	<b>P6,248,528</b>	<b>P1,029,825</b>	<b>P-</b>	<b>P7,278,353</b>
<b>Assets for which fair values are disclosed</b>					
<b>Financial Assets</b>					
HTM investments					
Private debt securities	P1,687,413	P1,639,212	P-	P-	P1,639,212
Loans and receivables					
Receivables from customers					
Consumption loans	43,319,620	-	46,039,636	-	46,039,636
Real estate loans	32,640,506	-	31,189,587	-	31,189,587
Commercial loans	12,027,149	-	13,132,063	-	13,132,063
Personal loans	3,267,604	-	3,674,480	-	3,674,480
Other receivables					
Sales contract receivable	243,655	-	260,648	-	260,648
Other assets					
Security deposits	115,743	-	116,012	-	116,012
<b>Non-Financial Assets</b>					
Investment properties	2,859,908	-	3,281,647	-	3,281,647
	<b>P96,161,598</b>	<b>P1,639,212</b>	<b>P97,694,073</b>	<b>P-</b>	<b>P99,333,285</b>
<b>Liabilities measured at fair value</b>					
<b>Financial Liabilities</b>					
Derivatives Liabilities	P2,866	P-	P2,866	P-	P2,866
	<b>P2,866</b>		<b>P2,866</b>	<b>P-</b>	<b>P2,866</b>
<b>Liabilities for which fair values are disclosed</b>					
<b>Financial Liabilities</b>					
Deposit liabilities					
Time	P94,438,086	P-	P98,785,060	P-	P98,785,060
Subordinated notes	5,945,659	-	5,683,746	-	5,683,746
	<b>P100,383,745</b>	<b>P-</b>	<b>P104,468,806</b>	<b>P-</b>	<b>P104,468,806</b>

<b>December 31, 2013 (Audited)</b>					
	<b>Carrying Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
<b>Assets measured at fair value</b>					
<b>Financial Assets</b>					
FVPL investments					
HFT - government securities	P184,607	P184,607	P-	P-	P184,607
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
	<b>P5,832,252</b>	<b>P4,475,565</b>	<b>P1,356,687</b>	<b>P-</b>	<b>P5,832,252</b>
<b>Assets for which fair values are disclosed</b>					
<b>Financial Assets</b>					
Loans and receivables					
Receivables from customers					
Consumption loans	P37,963,039	P-	P41,855,955	P-	P41,855,955
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

December 31, 2013 (Audited)					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Other assets		–		–	
Security deposits	97,034	–	104,499	–	104,499
<b>Non-Financial Assets</b>					
Investment properties	2,589,408	–	2,985,199	–	2,985,199
	<b>₱84,866,570</b>	<b>₱–</b>	<b>₱90,684,336</b>	<b>₱–</b>	<b>₱90,684,336</b>
<b>Financial Liabilities</b>					
Deposit liabilities					
Time	₱81,286,387	₱–	₱87,724,257	₱–	₱87,724,257
Subordinated notes	2,972,366	–	3,504,468	–	3,504,468
	<b>₱84,258,753</b>	<b>₱–</b>	<b>₱91,228,725</b>	<b>₱–</b>	<b>₱91,228,725</b>

There have been no transfers between Level 1 and Level 2 in September 30, 2014 and December 31, 2013.

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)

Opening balance	₱–
Transfers into Level 3 <sup>a,b</sup>	63,363,959
Total losses for the period included in profit or loss	<u>(63,363,959)</u>
Closing balance	<u>₱–</u>
Change in unrealized losses for the period included in profit or loss for assets held at the end of the reporting period	<u>(₱63,363,959)</u>

- (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.

## Financial Risk Management

Compared with December 31, 2013, there have been no significant changes in the financial risk exposures that materially affect the financial statements of the Bank as of September 30, 2014. The Bank has exposures to credit, market, and liquidity risks from its use of financial instruments. The following discussions should be read in conjunction with the Notes to the Bank's 2013 audited financial statements.

### *Risk Management Framework*

Organization risk management structure continues to be a top-down organization, with the Board of Directors ("BOD") at the helm of all major initiatives. The Risk Oversight Committee ("ROC") was constituted by the BOD to be responsible for the development and oversight of the Risk Management Program of the Bank. 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 Board is also supported by other Board and management-level committees such as the Corporate Governance, Audit, Executive, Credit, Assets and Liabilities Committees, to name a few.



### *Credit Risk*

Credit risk is the risk that 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 and ROC. The people engaged in the credit process are required to understand and adhere to these policies. Product manuals are in place and define the product, business plan, parameters, associated risks and mitigating controls. The system of checks includes multiple approval system, ROC review, Internal Audit, and the BOD - through the ExCom, CreCom and ROC, for sound credit policies and practices.

Credit risk control and management tools include product limits, credit scoring models, unique customer and group identification for aggregation of exposures, automated loan grading, 10-point credit rating systems, stress testing models, and external ratings. Aggregate exposures of at least P0.1 billion are placed on a special monitoring. Concentration of risk, by borrower, group of borrowers, geographical region and industry sector are monitored on a regular basis. The Bank also performs impairment analyses on loans and receivables, on individual and collective basis in accordance with PFRS.

### *Liquidity Risk*

Liquidity risk is the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they become due. Liquidity management emphasizes cashflow management, ability to raise funds, and maintenance of a stock of high quality liquid assets. 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 liquidity is the Maximum Cumulative Outflow report. It shows the projected cash flows of assets and liabilities, representing estimated funding sources and requirements, under normal conditions. The Bank also projects liquidity positions under different stress scenarios and has in place a Liquidity Contingency Funding Plan, to help evaluate funding needs and response strategies under various conditions.

### *Market Risk*

Market risk is the possibility of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, equity prices and other market factors. The Bank utilizes various measurement and monitoring tools to ensure that risk-taking activities are managed within instituted market risk parameters. The Bank's risk policies and implementing guidelines are regularly reviewed by the Assets and Liabilities Committee, 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 - Trading Book*

The Bank's trading portfolios are mainly composed of peso and dollar-denominated sovereign debt securities that are marked-to-market daily. Market risk exposures arising from these portfolios are measured daily. The Bank has established stop loss, loss trigger, and Value-at-Risk ("VaR") limits for its trading portfolios. VaR is a statistical measure that estimates the maximum potential loss from a portfolio, under normal conditions, for a given confidence level, over a specified holding period. The Bank's current VaR model uses historical simulation for Peso and USD HFT portfolios with confidence level at 99% and a 1 day holding period. It utilizes a 260-day rolling window of the most recently observed daily data for each asset class. Reports are prepared on a daily basis and are also reported to the ROC and BOD on a monthly basis. Stress testing is also conducted, based on historical and ad-hoc rate shocks to estimate potential losses in extreme or crisis situations.

#### *Market Risk - Banking Book (interest rate risk)*

The Bank follows a prudent policy on managing its assets and liabilities to ensure that exposure to 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. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or repricing dates, whichever is earlier. 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. From the repricing gap, the Bank measures interest rate risk based on earnings perspective through Earnings-at-Risk ("EaR"). EaR is an interest rate risk measure of the Bank's earnings decline either immediately or over time as a result of a change in the volatility of interest rates. It is a management tool that evaluates the sensitivity of the accrual portfolio to expected change in interest rates over the next 12 months. The Bank also performs stress-testing analysis to estimate the impact of extreme interest rate movements.

#### *Market Risk - Foreign currency risk*

Foreign currency risk is the risk of an investment's value changing due to adverse movements in currency exchange rates. It arises due to mismatches in the Bank's foreign currency assets and liabilities. The Bank's policy is to maintain foreign currency exposure within the approved position, VaR and loss limits and within existing regulatory guidelines.

#### **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 September 30, 2014 and December 31, 2013 amounted to ₱1.1 billion.

The following table shows the amount of outstanding balances of related party transactions of the Bank, joint venture and other related transactions with the retirement plan of the employees of the Bank as of September 30, 2014 and December 31, 2013:

		<b>September 30, 2014 (Unaudited)</b>	
		<b>Elements of Transaction</b>	
<b>Related Party</b>	<b>Nature of Transaction</b>	<b>Statement of Condition</b>	<b>Statement of Income</b>
Philippine Savings Bank	Equity Investment*	P623,275,287	
	Time Deposits**	7,172,404	
	Investment in Money Market Fund***	81,727,123	
	Accrued Interest Income	2,200	
	Dividends Earned		10,507,643
	Gain on Sale of Equity Securities		6,541,334
	Interest Income		11,682
	Income in Money Market Fund		106,846
Sumisho Motor Finance Corporation	Equity Investment	200,000,000	
First Metro Securities Brokerage	Accounts Receivables	704,845	

\*Includes fair value gains of P411.30 million  
\*\* Represent 2 to 15 day time deposits and bear interest of 1.00%  
\*\*\* Includes fair value gains of P0.39 million

		<b>December 31, 2013 (Audited)</b>	
		<b>Elements of Transaction</b>	
<b>Related Party</b>	<b>Nature of Transaction</b>	<b>Statement of Condition</b>	<b>Statement of Income</b>
Philippine Savings Bank	Equity Investment*	P636,360,070	
	Time Deposits**	25,537,612	
	Accrued Interest Income	2,840	
	Dividends Earned		P33,387,572
	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 P421.1 million  
\*\*Represent 6 to 7 day time deposits and bear interest of 1.00%

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 September 30, 2014 and December 31, 2013.

### **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:

	<b>September 30, 2014 (Unaudited)</b>	<b>December 31, 2013 (Audited)</b>
Short-term employee benefits	<b>P150,111,878</b>	<b>P197,100,931</b>
Post-employment pension benefits	<b>5,100,084</b>	<b>41,273,818</b>
	<b>P155,211,962</b>	<b>P238,374,749</b>

Short-term employee benefits include salaries and other non-monetary benefits.

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to P9.8 million and P13.0 million in September 30, 2014 and December 31, 2013, 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):

<b>September 30, 2014 (Unaudited)</b>			
<b>Category</b>	<b>Amount/ Volume</b>	<b>Outstanding Balance</b>	<b>Nature, Terms and Conditions</b>
<b>Significant Investor</b>			
Interbank loans receivable		P1,391,125	Peso and dollar denominated lending with fixed interest rates ranging from 2.00% to 2.25% with maturity terms from 1 to 360 days
Deposits/placements	P136,991,125		
Withdrawals/maturities	135,600,000		
Accrued Interest Receivable		7,330	Accrual of interest on outstanding interbank loans receivable
Due from other banks	52,358	1,074,211	Secured – P1,074,211 Short-term peso and foreign currency-denominated deposits with fixed rates ranging from 0.00% to 5.00%
Accounts receivables	600	7,625	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous assets		919	Security deposits on lease contracts
Bills Payable		-	Peso-denominated borrowing with fixed interest rates ranging from 2.00% to 2.25% and maturities ranging from 1 and 3 days
Deposits/placements	5,800,000		
Withdrawals/maturities	5,800,000		
Accounts payable		1,731	Unpaid association dues, atm overages and charge slips issued due to under transmission/under encoding of checks
Miscellaneous liabilities		6,100	Advance payments of security deposits from various tenants
Accrued other expense payable		62,136	Outstanding information technology expense payable, charges on current and savings accounts
Available-for-sale investments		50,000	Pledge for security of payroll account with MBTC
Interest income	19,967		Income from deposits and interbank loans receivables
Trading loss	(49,445)		Loss from securities transactions
Rental income	18,471		Income from leasing agreements with various lease terms ranging from 2 to 5 years
Information technology expense	90,898		Payment of information technology transactions
Interest expense	407		Interest expense on deposit liabilities
Securities transactions			
Outright purchases	1,475,748		Outright purchase of FVPL and AFS investments
Outright sales	2,350,000		Outright sale of FVPL and AFS investments
<b>Associate</b>			
Investment in an associate		-	Outstanding balance of capital investment in TFSPC
Sale of Equity Investments	754,337		Sale of equity investments to GT Capital Holdings Inc.
Deposit liabilities	135	2,310	Demand deposits with annual fixed rate of 1.25%
Share in net earnings of an associate	72,094		25.00% Share in net income of TFSPC
Interest expense	24		Interest on deposit liabilities
<b>Joint Venture</b>			
Investment in a joint venture		658,973	Outstanding balance of capital investment in SMFC
Accounts receivable		139	Outstanding rental and utility receivables, non-interest bearing
Deposit Liabilities	79,257	333,719	Demand and short term peso time-deposits with annual fixed rates ranging from 0.75% to 1.50%
Miscellaneous liabilities		2,610	Advance payment of security deposits

**September 30, 2014 (Unaudited)**

<b>Category</b>	<b>Amount/ Volume</b>	<b>Outstanding Balance</b>	<b>Nature, Terms and Conditions</b>
Rental income	7,221		Income from leasing agreements
Share in net loss of a joint venture	(5,773)		40.00% share in net loss of SMFC
Interest expense	2,368		Interest on deposit liabilities
<b>Other Related Parties</b>			
Interbank loans receivable		-	Peso denominated lending which earn fixed daily interest rates ranging from 2.00% to 2.50% with maturity terms from 1 to 3 days
Deposits/placements	43,319,000		
Withdrawals/maturities	43,319,000		
Receivable from Customers		402,943	Loans granted bearing an interest ranging from 7.0% to 10.5% with maturities ranging from 1 to 8 years; no impairment
Deposits/placements	4,200		Secured – ₱353,267; Unsecured – ₱49,676; impaired – ₱395,878
Withdrawals/maturities	54,600		
Miscellaneous assets		925	3 months advance security deposits
Accounts receivable	3,964	3,522	Outstanding rental and utility receivables, non-interest bearing
Prepaid Insurance		11,279	Payment of various motor car vehicles, fire, money, security, payroll and robbery insurance
Prepaid Expense – Others		49	Payment for various policy renewals
Deposit Liabilities	5,809,269	5,812,863	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 1.75%
Accrued other expense payable		4,362	Outstanding group life insurance payable
Accounts payable		661	Various personal and car insurance payable
Miscellaneous liabilities		2,107	Advance payment of security deposits from various tenants
Bills Payable		-	Peso denominated borrowing which earn 2.00% fixed daily interest rates with maturity terms from 1 to 5 days
Deposits/placements	55,920,000		
Withdrawals/maturities	55,920,000		
Interest income	4,276		Income on receivables from customers and interbank loans receivables
Trading Loss	(6,393)		Income from securities transactions
Rental income	6,485		Income from leasing agreements with various lease terms
Other Income	558,163		Profit on sale of equity investments in TFSPC
Bank commission	20,947		Commission income on ATM service fees
Interest expense	78,076		Interest on deposit liabilities and interbank borrowings
Rent expense	2,514		Payment of rent to various lessors
Insurance expense	32,322		Payment of insurance premium
Securities transactions			
Outright purchases	730,000		Outright purchase of FVPL and AFS investments
Outright sales	1,594,875		Outright sale of FVPL and AFS investments
<b>Key Personnel</b>			
Receivables from customers		10,941	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Deposits/placements	1,880		
Withdrawals/maturities	5,291		
Interest income	697		Interest income from loans

**December 31, 2013 (Audited)**

<b>Category</b>	<b>Amount/ Volume</b>	<b>Outstanding Balance</b>	<b>Nature, Terms and Conditions</b>
<b>Significant Investor</b>			
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 receivables	4,080	7,025	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment

**December 31, 2013 (Audited)**

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
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
<b>Associate</b>			
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
<b>Joint Venture</b>			
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
<b>Other Related Parties</b>			
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	28,085,000		
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
Deposits/placements	6,295		
Withdrawals/maturities	54,280		
Miscellaneous assets		925	Secured -P368,847; Unsecured -P84,496; impaired -P268,273
Accounts receivable	(47)	1,242	3 months advance security deposits
Prepaid expense		7,219	Outstanding rental and utility receivables, non-interest bearing
Deposit Liabilities	2,365,121	3,593,455	Payment of various motor car vehicles, fire, money, security, payroll and robbery insurance
Accrued other expense payable		3,579	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 3.68%
Accounts payable		207	Outstanding group life insurance payable
Miscellaneous liabilities		1,020	Various personal and car insurance payable
			Advance payment of security deposits from

**December 31, 2013 (Audited)**

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Interest income	55,970		various tenants 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
<b>Key Personnel</b>			
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

**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 September 30, 2014 and December 31, 2013:

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Total outstanding DOSRI accounts	₱ 3,108,502,934	₱ 1,709,337,946
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423 to total loans	3.24%	1.95%
Percent of new DOSRI accounts granted under BSP Circular No. 423 to total loans	—	—
Percent of unsecured DOSRI accounts to total DOSRI accounts	7.92%	15.90%
Percent of past due DOSRI accounts to total DOSRI accounts	12.74%	26.32%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	12.74%	26.32%

As of September 30, 2014 and December 31, 2013, 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 September 30, 2014 and December 31, 2013, the Bank is in compliance with these requirements.

Total interest income from DOSRI loans amounted to ₱48.4 million, ₱53.2 million in September 30, 2014 and December 31, 2013, respectively.

### Other Disclosures

- a) There are no unusual items of asset, liability, equity, net income or cash flow.
- b) No material items of changes were noted in the comparison of actual results with estimated amounts.
- c) Details of the Bank's dividend distributions as approved by the Bank's BOD and the BSP follow:

Date of Declaration	Cash Dividends		Date of BSP Approval	Record Date	Payment Date
	Per Share	Total Amount			
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
January 24, 2014	0.75	180,189,368	February 12, 2014	March 5, 2014	March 20, 2014
April 28, 2014	0.75	180,189,368	June 6, 2014	July 1, 2014	July 16, 2014
July 22, 2014	0.75	180,189,368	August 12, 2014	September 2, 2014	September 17, 2014

PSBank stock price closed at ₱109.90 per share as of November 3, 2014.

- d) No unregistered securities were sold or offered for sale by the Bank as of September 30, 2014.
- e) Segment revenue and result of business segments are found in Annexes 7 and 7A.
- f) The Bank was not engaged in any business combinations, acquisitions or disposal of subsidiaries and long-term investments.

### Subsequent Events

The Bank's Board of Directors approved on October 30, 2014, the declaration of 7.5% Regular Cash Dividend for the third quarter of 2014 amounting to ₱180.19 million or ₱0.75 per share, payable to all common stockholders as of a Record Date to be fixed by the President after approval by the BSP.

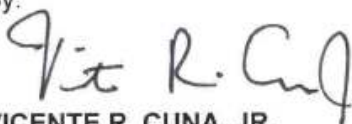


## SIGNATURES

Pursuant to the requirement of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

### PHILIPPINE SAVINGS BANK

By:



**VICENTE R. CUNA, JR.**  
President



**PERFECTO RAMON Z. DIMAYUGA, JR.**  
Chief Finance Officer

November 7, 2014

# **PHILIPPINE SAVINGS BANK**

## **Interim Financial Statements**

As of September 30, 2014 (Unaudited) and December 31, 2013 (Audited)  
and for the nine months ended September 30, 2014 and 2013 (Unaudited)

**PHILIPPINE SAVINGS BANK**  
**STATEMENTS OF CONDITION**

Annex 1

	Unaudited	Audited
	September 30	December 31
	2014	2013
<b>ASSETS</b>		
Cash and Other Cash Items	1,946,066,337	3,157,499,371
Due from Bangko Sentral ng Pilipinas	11,289,202,484	7,401,657,444
Due From Other Banks	3,523,584,632	8,491,340,954
Interbank Loans Receivable and Securities Purchased		
Under Resale Agreements	25,339,875,000	14,527,000,000
Financial Assets at FVPL	51,392,564	184,607,411
Available-for-Sale Investments	7,228,377,532	5,649,063,230
Held-to-Maturity Investments	1,687,412,599	-
Loans and Receivables	92,232,370,976	82,917,120,996
Investments in an Associate and a Joint Venture	658,972,678	1,346,142,410
Property and Equipment	2,457,454,230	2,389,780,404
Investment Properties	2,859,907,648	2,589,408,310
Deferred Tax Asset	573,444,236	243,119,247
Goodwill and Other Intangible Assets	349,558,665	292,832,054
Other Assets	968,372,837	836,302,916
	<b>151,165,992,418</b>	<b>130,025,874,747</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Deposit Liabilities		
Demand	10,394,614,465	9,050,826,107
Savings	17,856,850,963	16,181,291,134
Time	94,438,085,662	81,286,386,668
	122,689,551,090	106,518,503,909
Subordinated Notes	5,945,659,246	2,972,366,024
Treasurer's, Cashier's and Manager's Checks	1,195,913,393	1,110,517,230
Accrued Taxes, Interest and Other Expenses	1,165,820,497	1,099,730,994
Income Tax Payable	38,219,956	132,339
Financial Liabilities at FVPL	2,865,842	-
Other Liabilities	2,510,338,845	2,061,548,774
	<b>133,548,368,869</b>	<b>113,762,799,270</b>
<b>Equity</b>		
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 Reserves	1,035,275,317	1,035,275,317
Surplus	11,540,105,726	10,205,364,825
Net Unrealized Gain/(loss) on Available-for-Sale Investments	42,069,482	22,289,515
Equity in Net Unrealized Gain on Available-for-Sale Investment of an Associate	35,000	25,000
Remeasurement Losses on Retirement Plan	(178,577,793)	(178,577,793)
Equity in Remeasurement Losses on Retirement Plan of a Joint Venture	21,272	(479,690)
Equity in Cash Flow Hedge Reserve of an Associates	-	(335,158)
Cumulative Translation Adjustment	(41,913,871)	(41,094,955)
	<b>17,617,623,549</b>	<b>16,263,075,477</b>
	<b>151,165,992,418</b>	<b>130,025,874,747</b>

**PHILIPPINE SAVINGS BANK**  
**STATEMENTS OF INCOME**

Annex 2

	Unaudited			
	3rd Quarter (July to September)		Nine Months ended September 30	
	2014	2013	2014	2013
<b>INTEREST INCOME ON</b>				
Loans and receivables	2,207,569,749	2,054,161,273	6,546,255,606	6,008,372,015
Investment securities	90,702,062	35,164,438	262,662,260	318,900,752
Due from BSP	11,426,353	5,848,404	41,090,199	31,488,122
Due from other banks	4,711,206	1,930,167	13,499,964	5,853,777
Interbank loans receivable and securities purchased under resale agreements	262,213,115	176,503,832	664,073,519	331,063,601
	<u>2,576,622,484</u>	<u>2,273,608,113</u>	<u>7,527,581,548</u>	<u>6,695,678,267</u>
<b>INTEREST EXPENSE ON</b>				
Deposit liabilities	545,124,082	494,937,188	1,577,352,893	1,678,009,246
Subordinated notes	89,929,734	46,287,075	201,621,224	133,871,137
	<u>635,053,816</u>	<u>541,224,263</u>	<u>1,778,974,117</u>	<u>1,811,880,383</u>
<b>NET INTEREST INCOME</b>	1,941,568,668	1,732,383,850	5,748,607,431	4,883,797,884
Service fees and commission income	287,087,416	256,922,674	851,071,660	770,637,372
Service fees and commission expense	17,543,317	20,039,821	54,974,061	60,244,297
<b>NET SERVICE FEES AND COMMISSION INCOME</b>	269,544,098	236,882,853	796,097,599	710,393,075
<b>OTHER OPERATING INCOME (LOSS)</b>				
Trading and securities gain (loss), net	473,614	(20,985,531)	203,641,587	4,183,509,600
Gain (Loss) on sale of property and equipment	1,070,255	133,695,841	38,928,324	136,714,670
Gain (Loss) on foreclosure and sale of:				
Investment Properties	91,709,455	62,219,543	249,189,283	207,298,983
Chattel Mortgage Properties	86,353,550	95,897,784	255,183,196	309,292,205
Foreign exchange gain (loss)	5,437,984	1,539,523	5,588,149	(6,431,833)
Miscellaneous	646,371,914	41,944,377	777,716,930	112,141,315
	<u>831,416,771</u>	<u>314,311,537</u>	<u>1,530,227,469</u>	<u>4,942,524,940</u>
Total Operating Income	3,042,529,538	2,283,578,240	8,074,932,499	10,536,715,900
<b>OTHER OPERATING EXPENSES</b>				
Compensation and fringe benefits	615,362,833	503,598,414	1,838,068,165	1,639,492,296
Taxes and licenses	368,109,819	197,763,783	841,731,552	857,254,977
Occupancy and equipment-related costs	160,505,742	146,521,780	463,402,656	431,821,661
Depreciation and amortization	122,084,116	120,301,315	378,552,008	360,599,951
Provision for impairment and credit losses	581,331,399	499,500,523	1,349,896,843	1,921,420,080
Security, messengerial and janitorial services	72,226,074	64,693,213	211,780,660	183,786,529
Amortization of software costs	21,524,859	19,955,356	58,810,036	49,673,560
Miscellaneous	438,716,681	218,407,666	1,195,517,516	1,107,025,714
	<u>2,379,861,524</u>	<u>1,770,742,049</u>	<u>6,337,759,434</u>	<u>6,551,074,767</u>
<b>INCOME BEFORE SHARE IN NET EARNINGS OF AN ASSOCIATE AND A JOINT VENTURE AND INCOME TAX</b>	662,668,014	512,836,191	1,737,173,065	3,985,641,132
<b>SHARE IN NET EARNINGS OF AN ASSOCIATE AND A JOINT VENTURE</b>	20,996,094	23,421,783	66,321,180	76,173,299
<b>INCOME BEFORE INCOME TAX</b>	683,664,109	536,257,974	1,803,494,245	4,061,814,431
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>	(63,444,011)	204,134,299	(71,814,764)	856,754,361
<b>NET INCOME</b>	<u>747,108,120</u>	<u>332,123,676</u>	<u>1,875,309,009</u>	<u>3,205,060,071</u>
<b>EARNINGS PER SHARE</b>				
Net income	747,108,120	332,123,676	1,875,309,009	3,205,060,071
Weighted average number of outstanding common shares	240,252,491	240,252,491	240,252,491	240,252,491
<b>Earnings per share</b>	<u>3.11</u>	<u>1.38</u>	<u>7.81</u>	<u>13.34</u>

**PHILIPPINE SAVINGS BANK**

**STATEMENTS OF CHANGES IN EQUITY**

Annex 3

	Common Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Available-for-Sale Investments	Remeasurement Losses on Retirement Plan	Equity in Net Unrealized Gain on Available for sale Investment of Associate	Equity Remeasurement Losses on Retirement Plan of a Joint Venture	Equity in Cash Flow Hedge Reserve of an associate	Cumulative Translation Adjustment	Total
Balance at January 1, 2014	2,402,524,910	2,818,083,506	1,035,275,317	10,205,364,822	22,289,514	(178,577,793)	25,000	(479,690)	(335,158)	(41,094,955)	16,263,075,472
Effect of retrospective application of PAS 19	-	-	-	-	-	-	-	-	-	-	-
Balance at January 1, 2014	2,402,524,910	2,818,083,506	1,035,275,317	10,205,364,822	22,289,515	(178,577,793)	25,000	(479,690)	(335,158)	(41,094,955)	16,263,075,474
Total other comprehensive income (loss)	-	-	-	1,875,309,009	19,779,968	21,272	10,000	500,962	335,158	(818,916)	1,895,137,452
Cash dividends	-	-	-	(540,568,105)	-	-	-	-	-	-	(540,568,105)
<b>Balance at September 30, 2014</b>	<b>2,402,524,910</b>	<b>2,818,083,506</b>	<b>1,035,275,317</b>	<b>11,540,105,726</b>	<b>42,069,483</b>	<b>(178,556,521)</b>	<b>35,000</b>	<b>21,272</b>	<b>(0)</b>	<b>(41,913,871)</b>	<b>17,817,644,820</b>
Balance at January 1, 2013	2,402,524,910	2,818,083,506	1,035,275,317	8,719,721,542	206,153,207	-	-	-	-	(67,411,008)	15,114,347,474
Effect of retrospective application of PAS 19	-	-	-	-	-	-	-	-	-	-	-
Balance at January 1, 2014	2,402,524,910	2,818,083,506	1,035,275,317	8,719,721,542	206,153,207	-	-	-	-	(67,411,008)	15,114,347,474
Total other comprehensive income (loss)	-	-	-	3,205,060,072	(199,255,072)	-	-	-	-	24,977,459	3,030,782,459
Cash dividends	-	-	-	(540,568,105)	-	-	-	-	-	-	(540,568,105)
<b>Balance at September 30, 2013</b>	<b>2,402,524,910</b>	<b>2,818,083,506</b>	<b>1,035,275,317</b>	<b>11,384,213,509</b>	<b>6,888,135</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(42,433,549)</b>	<b>17,804,581,828</b>
Balance at January 1, 2013	2,402,524,910	2,818,083,506	1,035,275,317	8,718,390,983	206,153,207	-	-	-	-	(67,411,008)	15,113,016,895
Effect of retrospective application of PAS 19	-	-	-	-	-	(85,597,229)	-	-	-	-	(85,778,571)
Balance at January 1, 2014	2,402,524,910	2,818,083,506	1,035,275,317	8,718,390,983	206,153,207	(85,597,229)	-	(181,342)	-	(67,411,008)	15,027,238,324
Total other comprehensive income (loss)	-	-	-	2,928,488,805	(183,863,692)	(92,980,564)	25,000	(298,348)	(335,158)	26,316,053	2,877,352,096
Cash dividends	-	-	-	(1,441,514,946)	-	-	-	-	-	-	(1,441,514,946)
<b>Balance at December 31, 2013</b>	<b>2,402,524,910</b>	<b>2,818,083,506</b>	<b>1,035,275,317</b>	<b>10,205,364,822</b>	<b>22,289,515</b>	<b>(178,577,793)</b>	<b>25,000</b>	<b>(479,690)</b>	<b>(335,158)</b>	<b>(41,094,955)</b>	<b>16,348,854,045</b>

**PHILIPPINE SAVINGS BANK**  
**STATEMENTS OF COMPREHENSIVE INCOME**

	(Unaudited)			
	<sup>3rd</sup> Quarter (July to September)		Nine Months Ended September	
	2014	2013	2014	2013
<b>NET INCOME</b>				
Other Comprehensive Income	₱747,108,120	₱332,123,675	₱1,875,309,009	₱3,205,060,071
Gain from sale of AFS investment taken to profit or loss	-	(1,175,580,365)	99,761,580	(3,742,906,519)
Changes in fair values of AFS investments	(11,741,192)	1,175,820,770	99,798,731	3,543,651,448
Net unrealized gain/(loss) on remeasurement of retirement liability	-	-	(178,577,793)	-
Net unrealized gain/(loss) on cash flow hedge of associate and joint venture	-	-	(335,158)	-
Cumulative translation adjustment	(2,259,438)	2,686,301	(818,916)	24,977,459
<b>TOTAL COMPREHENSIVE INCOME, NET OF TAX</b>	<b>₱733,107,490</b>	<b>₱335,050,381</b>	<b>₱1,895,137,453</b>	<b>₱3,030,782,459</b>

	Unaudited September 30, 2014	Unaudited September 30, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	1,803,494,245	4,061,814,432
Adjustments for:		
Provision for impairment and credit losses	1,349,896,843	1,515,044,838
Depreciation and amortization of bank premises	378,552,008	360,599,951
Amortization of software costs	58,810,036	49,673,560
Amortization of debt issuance costs	2,453,017	1,912,356
Unrealized trading (gain)/loss on fair value through profit or loss investments	(2,041,331)	-
Accretion of premium (discount) on available-for-sale investments	(83,558,301)	(30,877,098)
Share in net income of an associate and a joint venture	(66,321,180)	(76,173,299)
Loss from sale of property and equipment	(38,928,324)	(136,714,670)
Loss from sale of investment properties	(26,893,666)	(29,490,674)
Gain/(Loss) on sale of chattel	43,361,660	(18,480,212)
Loss on foreclosure of investment properties	(222,295,617)	(177,808,309)
Gain/(Loss) on foreclosure of chattel	(298,524,856)	115,563,248
Realized gain/(loss) on sale of AFS investments	99,761,580	(3,742,906,519)
Changes in operating assets and liabilities:		
Decrease (Increase) in amounts of:		
Fair value through Profit or Loss investments	135,256,178	119,228,800
Loans & Receivables	(11,812,504,189)	(12,751,347,939)
Other Assets	(174,376,463)	88,730,835
Increase (decrease) in amounts of:		
Deposit liabilities	16,170,584,686	5,628,835,276
Treasurer's, cashier's and manager's checks	85,396,163	142,166,180
Accrued taxes, interest and other expenses	27,998,614	(120,777,068)
Income tax payable	-	(5,628,505)
Financial Liabilities at Fair Value Through Profit or Loss	2,865,842	21,128,473
Other liabilities	451,944,697	218,664,658
Cash generated from operations	7,884,931,640	(4,766,841,686)
Income taxes paid	(220,422,608)	(319,317,998)
Net cash provided by (used in) operating activities	7,664,509,032	(5,086,159,684)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of:		
Other Intangible assets	(115,536,647)	(122,998,885)
Property and equipment	(354,744,115)	(280,325,328)
Held to maturity investments	(210,000,000)	-
Available for sale investments	1,403,926,257	9,225,476,235
Proceeds from redemption of held to maturity investment at maturity date	(1,477,423,426)	13,562,925,623
Investment properties	410,386,254	506,654,960
Property and equipment	72,431,474	218,230,008
Net cash provided by (used in) investing activities	(1,571,036,258)	18,664,640,708
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends declared/paid	(542,898,772)	(540,568,105)
Net cash provided by (used in) financing activities	2,427,941,434	(540,568,105)
Effect of exchange rate differences	(183,523)	7,418,392
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>8,521,230,684</b>	<b>13,045,331,311</b>
<b>CASH &amp; CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		
Cash and other cash items	3,157,499,371	2,811,064,294
Due from Bangko Sentral ng Pilipinas	7,401,657,444	5,514,832,823
Due from other banks	8,491,340,954	6,002,439,122
Interbank loans and receivables and securities purchased under resale agreements	14,527,000,000	6,100,000,000
	33,577,497,769	20,428,336,239
<b>CASH &amp; CASH EQUIVALENTS AT END OF 4th QUARTER</b>		
Cash and other cash items	1,946,066,337	1,706,690,241
Due from Bangko Sentral ng Pilipinas	11,289,202,484	5,863,967,849
Due from other banks	3,523,584,632	6,774,265,684
Interbank loans and receivables and securities purchased under resale agreements	25,339,875,000	19,128,743,776
	42,098,728,453	33,473,667,550
	<b>8,521,230,684</b>	<b>13,045,331,311</b>
<b>OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS</b>		
	September 30, 2014	September 30, 2013
Interest paid	1,770,546,067	1,874,399,628
Interest received	6,362,327,739	4,734,457,276

**AGING OF RECEIVABLES**  
**Philippine Savings Bank**  
**September 30, 2014**  
*( in natural currency )*

ACCOUNT TITLE	TOTAL LOAN PORTFOLIO	TOTAL CURRENT LOANS	TOTAL PAST DUE & ITEMS IN LIT.	P A S T D U E				ITEMS IN LITIGATION
				90 days or less	91-180 DAYS	181 DAYS TO 1 YEAR	MORE THAN 1 YEAR	
A. LOANS AND DISCOUNTS	94,764,440,344	91,593,998,792	3,170,441,551	818,151,464	355,349,830	333,129,374	316,924,572	1,346,886,311
B. AGRARIAN REFORM/OACL	512,474,824	484,943,461	27,531,363	4,948,088	2,580,300	-	14,210,549	5,792,427
C. BILLS PURCHASED	71,469,237	71,469,237	-	-	-	-	-	-
D. BD-DEVT INCENTIVE LOANS	-	-	-	-	-	-	-	-
E. CUSTOMERS LIABILITY ON DRAFTS/UNDER LC/TR	-	-	-	-	-	-	-	-
F. CUSTOMERS LIABILITY ON BANK ACCEPTANCES O/S	-	-	-	-	-	-	-	-
G. RESTRUCTURED LOANS	736,230,058	245,938,357	490,291,702	54,198,859	56,933,388	2,962,562	348,538,449	27,658,443
<b>Total Trade Receivables</b>	<b>96,084,614,463</b>	<b>92,396,349,847</b>	<b>3,688,764,616</b>	<b>877,298,411</b>	<b>414,863,518</b>	<b>336,091,936</b>	<b>679,673,570</b>	<b>1,380,337,182</b>
LESS: ALLOWANCE FOR PROBABLE LOSSES								
UNEARNED DISCOUNT	3,874,145,307							
OTHER DEFERRED CREDITS	955,377,489							
NET TRADE RECEIVABLE	211,423							
	91,254,880,244							
ACCOUNTS RECEIVABLES	508,221,315	38,126,845	470,094,470	3,298,639	9,692,617	2,184,934	450,402,357	4,515,923
ACCRUED INTEREST RECEIVABLES	1,053,686,613	709,436,680	344,249,932	14,633,808	9,539,036	15,186,227	255,363,582	49,527,279
<b>Total Non-Trade Receivables</b>	<b>1,561,907,927</b>	<b>747,563,525</b>	<b>814,344,402</b>	<b>17,932,447</b>	<b>19,231,653</b>	<b>17,371,161</b>	<b>705,765,939</b>	<b>54,043,202</b>
LESS: ALLOWANCE FOR PROBABLE LOSSES	828,071,962							
<b>NET NON-TRADE RECEIVABLE</b>	<b>733,835,966</b>							
<b>NET RECEIVABLES</b>	<b>91,988,716,209</b>							



**Philippine Savings Bank**  
 Business Segment Information  
 As of September 30, 2014 (Unaudited)  
 (In thousands)

	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
<b>Operating Income</b>					
Interest income	₱ 1,127,065	₱ 277,519	₱ 5,247,383	₱ 875,615	₱ 7,527,582
Service fees and commissions	296,039	55,417	499,615	–	851,071
Other operating income	487,653	90,627	742,718	209,230	1,530,228
<b>Total operating income</b>	<b>1,910,757</b>	<b>423,563</b>	<b>6,489,716</b>	<b>1,084,845</b>	<b>9,908,881</b>
<b>Non-cash expenses</b>					
Depreciation and amortization	84,236	6,876	286,872	569	378,553
Provision for credit and impairment losses	805,724	12,660	575,334	(43,822)	1,349,896
Amortization of other intangible assets	17,125	2,354	39,024	308	58,811
<b>Total non-cash expenses</b>	<b>907,085</b>	<b>21,890</b>	<b>901,230</b>	<b>(42,945)</b>	<b>1,787,260</b>
Interest expense	–	–	1,170,065	608,910	1,778,975
Service fees and commissions expense	19,122	3,580	32,272	–	54,974
<b>Subtotal</b>	<b>19,122</b>	<b>3,580</b>	<b>1,202,337</b>	<b>608,910</b>	<b>1,833,949</b>
Compensation and fringe benefits	389,958	74,971	1,364,147	8,993	1,838,069
Taxes and licenses	103,858	17,408	479,046	241,420	841,732
Occupancy and equipment - related costs	29,867	3,777	429,702	56	463,402
Security, messengerial and janitorial services	25,882	2,682	182,815	402	211,781
Miscellaneous	194,684	28,067	965,699	7,067	1,195,517
<b>Subtotal</b>	<b>744,249</b>	<b>126,905</b>	<b>3,421,409</b>	<b>257,938</b>	<b>4,550,501</b>
Income before share in net income of an associate and a joint venture and income tax	240,301	271,188	964,740	260,944	1,737,173
Share in net income of an associate and a joint venture	–	66,321	–	–	66,321
Income before income tax	240,301	337,509	964,742	260,944	1,803,494
Provision (Benefit) from income tax	–	–	–	–	(71,815)
<b>Net income</b>					<b>₱1,875,309</b>
<b>Segment assets</b>	<b>₱58,727,748</b>	<b>₱10,067,308</b>	<b>₱36,133,377</b>	<b>₱45,005,143</b>	<b>₱149,933,576</b>
Investments in an associate and a joint venture					658,973
Deferred tax asset					573,444
<b>Total assets</b>					<b>151,165,992</b>
<b>Segment liabilities</b>	<b>₱913,283</b>	<b>₱100,285</b>	<b>₱93,485,573</b>	<b>₱39,049,228</b>	<b>₱133,548,369</b>

**Philippine Savings Bank**  
 Business Segment Information  
 As of December 31, 2013 (Audited)  
 (In thousands)

	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
<b>Operating income</b>					
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
<b>Total operating income</b>	<b>2,065,057</b>	<b>699,729</b>	<b>7,153,154</b>	<b>4,675,273</b>	<b>14,593,213</b>
<b>Non-cash expenses</b>					
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
<b>Total non-cash expenses</b>	<b>882,279</b>	<b>107,670</b>	<b>1,699,615</b>	<b>1,713</b>	<b>2,691,277</b>
Interest expense	–	–	1,703,983	636,432	2,340,415
Service fees and commission expense	16,474	3,696	57,667	–	77,837
<b>Subtotal</b>	<b>16,474</b>	<b>3,696</b>	<b>1,761,650</b>	<b>636,432</b>	<b>2,418,252</b>
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
<b>Subtotal</b>	<b>1,164,451</b>	<b>209,178</b>	<b>3,735,967</b>	<b>374,994</b>	<b>5,484,590</b>
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
<b>Net income</b>					<b>₱2,928,489</b>
<b>Segment assets</b>	<b>₱49,098,520</b>	<b>₱10,296,750</b>	<b>₱33,326,752</b>	<b>₱35,714,592</b>	<b>₱128,436,614</b>
Investments in an associate and a joint venture					1,346,142
Deferred tax assets					243,119
<b>Total assets</b>					<b>₱130,025,875</b>
<b>Segment liabilities</b>	<b>₱455,304</b>	<b>₱99,653</b>	<b>₱85,968,305</b>	<b>₱27,239,537</b>	<b>₱113,762,799</b>

**ANNEX 8**

**PHILIPPINE SAVINGS BANK  
Financial Performance Indicators**

		Unaudited September 30, 2014	September 30, 2013
Return on Assets	$\frac{\text{Net Income}}{\text{Average Total Resources}}$	1.68%	2.53%
Return on Equity	$\frac{\text{Net Income}}{\text{Average Stockholders' Equity}}$	13.94%	18.66%
Net Interest Margin	$\frac{\text{Net Interest Income}}{\text{Average Earning Assets}}$	6.36%	5.85%
Cost to Income Ratio	$\frac{\text{Operating Expenses Excluding Provision for Probable Losses and Income Taxes}}{\text{Net Interest Income + Operating Income}}$	61.53%	45.68%
Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Total Stockholders' Equity}}$	758.04%	608.74%
Asset-to-Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Stockholders' Equity}}$	858.04%	708.74%
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interest and Taxes}}{\text{Interest Expense}}$	201.38%	324.18%
Liquidity Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	51.45%	54.12%
Loans to Deposit Ratio	$\frac{\text{Gross Loans}}{\text{Total Deposits}}$	77.48%	83.51%